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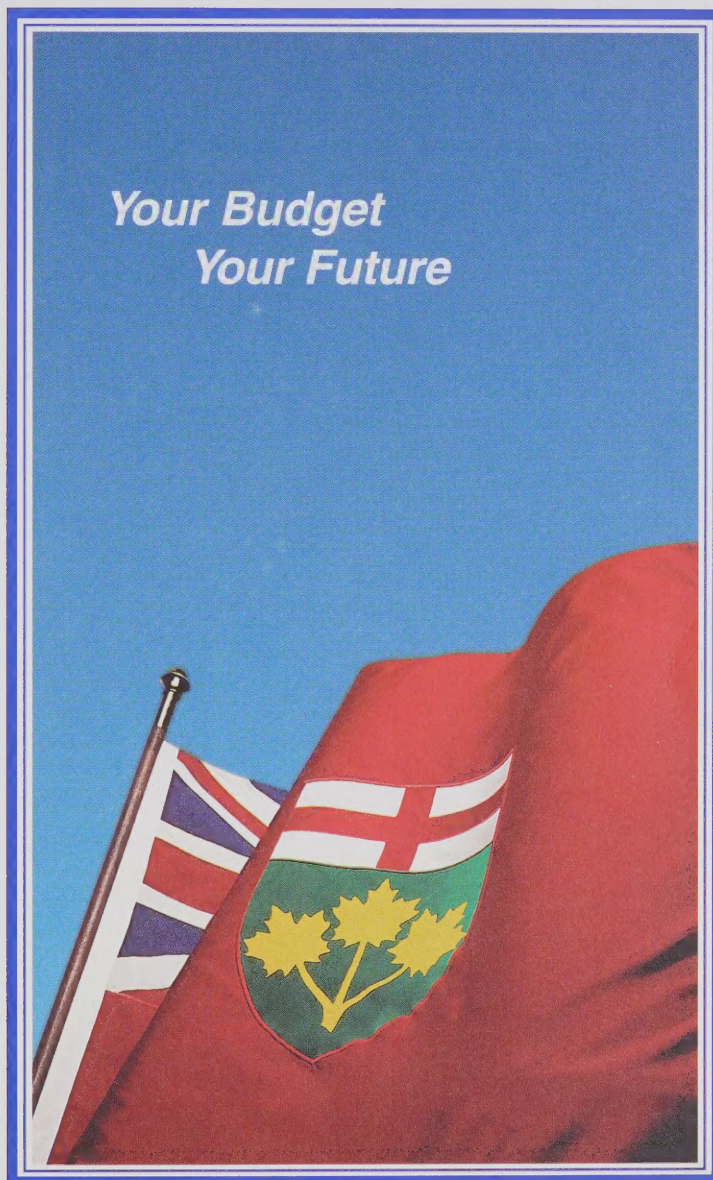




# 1996 Ontario Budget

## Budget Speech

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The Honourable Ernie Eves, Q.C.  
Minister of Finance





# **1996 Ontario Budget Budget Speech**

**Presented to the  
Members of the Legislative  
Assembly of Ontario by  
The Honourable Ernie Eves, Q.C.  
Minister of Finance  
May 7, 1996**

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*1996 Ontario Budget: Budget Speech*  
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880 Bay Street, 5th Floor

Toronto, Ontario M7A 1N8

Toll-free long distance 1-800-668-9938

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ISBN 0-7778-5209-8

Back cover: Illustration by Ada Lee, age 9, student at Jesse Ketchum Public School.

*Le document Budget de l'Ontario 1996 : Exposé budgétaire  
est disponible en français.*

# 1996 Ontario Budget

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## INTRODUCTION:

# CREATING JOBS, BUILDING A BETTER TOMORROW

I am honoured to present our Government's first Budget.

It is a Budget for the people of Ontario. It is a Budget that reflects what we have heard from the people of Ontario.

It is about hope and opportunity.

The people of Ontario want to know that tomorrow will be better than today — for themselves, and for their children. The people of Ontario want jobs. They want action to get more people working, stimulate investment, provide them with greater opportunity and reward them for their initiative.

This Budget is yet another step in carrying out the commitments of the Common Sense Revolution. It is based on discussions with people from all parts of Ontario and all walks of life.

The Budget I am presenting today:

- ◆ Leaves more money in the hands of hard-working Ontarians who have endured 65 tax increases in the past decade;
- ◆ Invests in programs that are a priority for Ontarians such as health care, classroom education and community safety;
- ◆ Reduces the cost and size of government;
- ◆ Spends taxpayers' dollars more wisely; and
- ◆ Builds a better future for ourselves and future generations.

Cutting taxes is a key part of our plan to achieve these goals.

***The people of Ontario want to know that tomorrow will be better than today — for themselves, and for their children.***

***The best job  
creation  
program is a  
tax cut for  
every  
Ontario  
taxpayer***

***High taxes  
are stifling  
businesses  
that will be  
the source of  
tomorrow's  
jobs***

## **Tax cuts mean jobs for Ontario**

The tax cuts I am announcing today will prove a simple truth: the best job creation program is a tax cut for every Ontario taxpayer. These tax cuts will create jobs in four ways.

- ◆ First: They will put extra money in Ontarians' pockets. Men and women across the province will be able to make purchases that they have been putting off for themselves and their families — and that creates jobs.
- ◆ Second: Families who have been struggling to get by and going into debt will be able to pay off their debts sooner. That increases their net worth, increases their future purchasing power and increases the pool of savings available for new investment — and that will create jobs.
- ◆ Third: Lower taxes will provide more incentive for entrepreneurs to form small businesses, and for existing business owners to reinvest. That too will create jobs.
- ◆ Fourth: People with specialized skills will have an extra incentive to choose Ontario as a place to live and work — helping to build industries that can compete worldwide — and that creates jobs.

## **Creating jobs and meeting Ontario's priorities**

Today's Budget sets a new direction for government in Ontario. It carries out the changes the people of Ontario asked us to make to deal with the problems we all face.

We live in a province whose potential is unlimited. We have skilled and hard-working people, abundant resources, and innovative entrepreneurs. We have every reason to expect a future that is better than today — with better jobs, greater prosperity, a better life for ourselves, and real hope for our children.

But we can't get there with the size of government that has been built up over the years. Government is bigger and more costly than it needs to be.

The cost of big government burdens the people of this province with high taxes and high deficits that hold down their standard of living. These high taxes are stifling the new and growing businesses that will be the source of tomorrow's jobs.

As a province we face a choice. We can continue on the track that governments have pursued for over a decade — with uncontrolled spending, spiralling taxes, and ever-mounting deficits. Or we can take a new direction — a direction that unleashes the job-creating potential of our economy by lifting the heavy yoke of inefficient government and high taxes.

Last June the people of Ontario — who did have other choices — indicated clearly that they want to take this new direction. They want their government to do what is needed to ensure a better future for themselves and their children.

- ◆ They want to see the burden of public debt on the economy reduced. That means eliminating the deficit, and laying the groundwork to reduce debt. It also means cutting taxes and taking actions that will strengthen economic growth.
- ◆ They want their government to balance the Budget and to spend their tax dollars wisely.
- ◆ They want a more efficient government that focuses on the services that matter most: a health care system whose quality is unsurpassed, classrooms where our children receive an excellent education, and law enforcement that keeps our communities safe.
- ◆ They want an environment where businesses can create jobs and opportunities here at home while competing for markets around the world.
- ◆ And they want their government to create jobs by cutting taxes — leaving more dollars in taxpayers' pockets, encouraging investment and initiative, and creating opportunities for Ontarians.

This Budget will help secure the kind of future Ontarians want. In preparing it, I have had the help and advice of hundreds of Ontarians who wrote to me, who met with me at pre-Budget consultations, who appeared before the Standing Committee on Finance and Economic Affairs or who provided their counsel through their MPP. I have considered their advice carefully, and I thank them for their contributions.

I also want to thank Ada Lee from Jesse Ketchum Public School in Toronto, who provided the artwork for the back cover of the Budget.

In addition, I want to express my appreciation to the outstanding staff of the Ministry of Finance, led by Deputy Minister Michael Gourley, to my personal staff, and to my wife Vicki and daughter Natalie for their support and understanding.

***Unleashing  
the job-  
creating  
potential of  
our economy***

***This year's  
deficit is  
\$3 billion  
lower than  
when we  
took office***

## **A new direction**

Never in our province's history has the need for action been so clear and so urgent. That is why our government has moved so quickly to fulfil so many of our commitments.

My colleagues and I took office following governments that had been taxing and spending Ontario in the wrong direction. And the people of Ontario felt the costs all too dearly.

- ◆ When a province of skilled and hard-working men and women goes for six years with no net new jobs — that's the wrong direction.
- ◆ When people who pay their bills each month see their government spending a million dollars an hour more than it takes in — that's the wrong direction.
- ◆ When people who work hard to save for the future see that future imperilled, with their government's debt tripling in 10 years — that's the wrong direction.
- ◆ And when people who have made sacrifices in their own lives to adapt to difficult times see their government reach deeper and deeper into their pockets — with 65 tax increases in the past 10 years — that too is the wrong direction.

After years of seeing their leaders go in the wrong direction, the people of Ontario asked us to chart a new course. We are doing just that.

Our Government is delivering on its promises.

And it is building a better tomorrow for Ontarians.

## **SPENDING YOUR TAX DOLLARS WISELY**

Since taking office, our Government has moved quickly to set a new direction with respect to the Province's finances.

### **Balancing the Budget**

We have made a commitment to balance the Budget in the fiscal year 2000-01. We are on track to do that.

In June we faced a deficit of \$11.2 billion for 1995-96. I said last summer that, by acting quickly to start bringing spending under control, we could reduce that figure. I am pleased to tell Ontarians today that we met our deficit target of \$9.3 billion — and in fact improved on it. Our deficit for the fiscal year just ended will be \$9.1 billion.

We set our targets and we met them. In my opinion, that's what Ontarians should expect to hear on Budget day. Meeting our targets should be the norm.

This year we expect to meet our deficit target again. Our deficit will fall to \$8.2 billion. That's a drop of \$3 billion, or 27 per cent, since we took office.

Our Government's deficit figures are based on cautious and prudent economic projections. They include a contingency reserve in case the economy performs below these projections.

Restructuring government and changing the way services are delivered will require up-front investment. This Budget provides a Restructuring Fund of \$900 million. This fund will allow for investments that support restructuring efforts and will cover the one-time costs associated with them.

Our fiscal plan is based on realistic and credible financial reporting practices that were recommended to the Government by the Ontario Financial Review Commission. We have put an end to the former government's practice of keeping "two sets of books." Their approach papered over the problem — our approach is to fix it.

In keeping with our practice of open financial reporting, I am releasing with today's Budget more than 150 pages of financial and economic information, so that all Ontarians can see the Province's financial situation and outlook.

## Ontario Opportunities Fund

Recently I met with students from Mattawa Public School in my riding. Two students from that school, Chelsea and Samantha Smith, who are six and five years old, gave me \$21.97 from their savings. They asked me to use their money to pay the Province's bills and help reduce the deficit.

I am creating a special fund to accommodate their wishes.

It's not fair to saddle our children with the high cost of paying interest on all the debt that has built up in the past. They deserve a better future than that. Eliminating the deficit today means more opportunities for young people like Chelsea and Samantha tomorrow.

Officially this fund will be known as the Ontario Opportunities Fund. But for me it will always be the Chelsea and Samantha Fund. To their first contributions we will be adding more:

- ◆ We will add donations from any Ontarian who wishes to contribute. I believe from what people have told me that Chelsea and Samantha are not alone in their desire to help pay down the Province's deficit. To give them an easy way to do so, we are working with the federal government to make it possible for Ontarians

***Eliminating  
the deficit  
today means  
more  
opportunities  
for young  
people  
tomorrow***

***Two new  
Ontario  
Savings  
Bonds  
options  
coming in  
June***

who so wish to donate their income tax refund each year, simply by checking a box on their tax return. I am grateful to Mr. Ted Arnott, the member for Wellington, for proposing this idea.

- ◆ We will also add the proceeds from any major asset or enterprise that the Province sells.
- ◆ We will add each year any funds that remain once we have met our deficit target. We won't rush out at year-end and spend the money — we will put it in this fund.
- ◆ At the end of each year we will use the balance in the Ontario Opportunities Fund to reduce the deficit and the debt of the Province.

The Ontario Opportunities Fund will allow us to cut the deficit, reduce our foreign borrowing, and reduce the growth in interest costs. Once the Budget is balanced, it will allow us to begin paying off the debt. That day is less than five years away.

### **Ontario Savings Bonds**

To give as many people as possible an additional opportunity to invest in their province and build a better Ontario, the Government will offer Ontario Savings Bonds from June 1 to June 17. This year, there will be two options to suit investors' needs: a step-up bond, where the rates improve every year, and a variable-rate bond where new, competitive rates are set every six months. Both bonds will be eligible for RRSPs and are fully backed by the Province.

Buying Ontario Savings Bonds means that we can reduce our reliance on international lenders — at the same time ensuring that more of the government's interest payments will go to Ontarians.

### **Living within the government's means**

The people of Ontario expect their government to live within its means. To eliminate the deficit, we are finding savings in every area of government activity. The government is making the same difficult decisions and adjustments that we have all had to make at home and at work in our everyday lives.

These actions make it possible to invest in the priorities that Ontarians expect their government to deliver — a universal and comprehensive health care system, an excellent education for our children, and law enforcement to keep our communities safe.

We have not yet finished the job. But look at what we have already accomplished:

- ◆ We have passed legislation to reform MPPs' compensation, get rid of hidden tax-free allowances, and abolish the gold-plated pension plan. The legislation cuts MPPs' pay by a further five per cent. No consideration will be given to changing that level of compensation until the Budget is balanced.
- ◆ We are reforming our welfare system. The most recent data show the number of people depending on social assistance has fallen for nine consecutive months and was 129,700 lower in March than last June — a drop of 9.6 per cent. We have brought our welfare rates back into line with other provinces, and we have taken a hard line against fraud and abuse. Later this year, the Minister of Community and Social Services, the Honourable David Tsubouchi, will announce a work-for-welfare program designed to help people move off welfare and back into the workforce.
- ◆ We have protected income support for seniors and people with disabilities. Our Government will announce plans to move seniors and people with disabilities off welfare and on to an Ontario Guaranteed Support Plan that meets their needs, respects their dignity, and continues to protect their benefits.
- ◆ Under the direction of the Chair of Management Board, the Honourable David Johnson, we have stopped spending taxpayers' dollars on programs that did not make sense. We cancelled spending for the conversion of private-sector child care spaces into non-profit spaces — a program that cost taxpayers \$52 million without creating a single new space for Ontario's children. We cancelled the Jobs Ontario Community Action program, which had been criticized extensively by the Provincial Auditor. We terminated the Interim Waste Authority, which spent millions of dollars without establishing a single site for municipal waste disposal.
- ◆ We are tackling the cost of government administration. We have already identified almost \$200 million in savings. That puts us about two-thirds of the way to our target of cutting administration costs by 33 per cent by the end of 1997-98.
- ◆ We have found savings of \$500 million in the way government delivers and operates its programs. That puts us about half-way towards our target of reducing spending by 33 per cent by the end of 1997-98.

***A new  
Ontario  
Guaranteed  
Support  
Program for  
seniors and  
people with  
disabilities***

***Finding  
savings in  
every area of  
government***

- ◆ We have found savings of over \$80 million by requiring agencies, boards and commissions to operate more efficiently. These actions put us over one-third of the way towards our target of reducing spending by 28 per cent by the end of 1997-98. The Government Task Force on Agencies, Boards and Commissions, which is chaired by Mr. Bob Wood, the member for London South, is working to find additional savings in this area.
- ◆ We have already identified \$700 million in savings in government grants, putting us half-way towards our target of reducing spending by 28 per cent by the end of 1997-98.
- ◆ We are managing the government's financial assets better. Starting this year the Province's borrowing agency, the Ontario Financing Authority, will take responsibility for borrowing, investing, cash management, and other financial activities of a number of ministries and Crown agencies that until now have carried out their own financial management. This action will mean less duplication, greater efficiency, and lower overall borrowing costs that will save taxpayers money.

### **Changing the way government does business**

As Premier Harris has said, we are committed to finding the best way to deliver government services. Taxpayers' dollars now fund many different activities that could be better run by the private sector or by public-private partnerships. We will be seeking ways to refocus the role of government, ensure our resources are put to their best use, and let the private sector play a larger role in the economy.

Our own employees have a major stake in these changes. This was recognized in the recently signed agreements with OPSEU and AMAPCEO. Employees will be given an equal opportunity to bid on operations being divested by the Province.

Privatization is one option for improving the way services are delivered. A special Cabinet Committee on Privatization, which the Premier has asked me to chair, will be established to oversee the privatization process. It will be supported by private- and public-sector advisors to ensure the best value for taxpayers is obtained. The Committee will ensure that the selection of privatization candidates is based on strict criteria that protect the public interest, and that the process is open, fair and free of conflict of interest. We will also establish procedures to require the registration of all persons and firms who lobby the government.

I will be inviting all Ontarians to provide the Government with their suggestions as to those government services that should be considered for possible privatization. The means for providing these suggestions will be announced shortly.

## INVESTING IN ONTARIO'S PRIORITIES

At the same time as we are changing the way government works, we are investing in the programs that Ontarians have told us they value most. This Budget provides a total of \$42.7 billion to pay for government programs and services this year.

We are making this investment in spite of the federal government's cuts in transfer payments to Ontario for health, education and social programs. The federal government will contribute \$1.2 billion less this year than last for health, education and social programs in the province.

Let me put that figure in perspective:

- ◆ Over the period 1995-96 to 1998-99, the federal government will cut payments to the provinces for health, education and social programs by 42.2 per cent.
- ◆ During this same period, it will cut all of the rest of its own program spending by only 1.3 per cent.

Those are strange priorities for a federal government that purports to be "fair and compassionate" and tells Canadians "the commitment of their national government in support of health care, post-secondary education and assistance to the poor will be intact, and strong."

In my opinion, those federal cuts do not reflect the priorities of the people of Ontario, or of the people of Canada.

### Quality health care

Ontarians value our health care system, and they want us to manage it in a way that protects it for the future.

In November I said that we would ask hospitals to find savings, and that we would reinvest these savings in other health priorities. I said we would not let health care spending fall below the \$17.4 billion benchmark we have established. In spite of the federal government's cuts to health care, we are meeting this commitment. With the substantial reinvestments we have made, this year's operating budget for the Ministry of Health will be \$17.7 billion.

The best way to keep Ontarians healthy is to detect signs of illness early, to act quickly, and to prevent problems before they start.

***Providing  
\$42.7 billion  
for  
government  
programs  
and services  
this year***

***Investing our  
health  
dollars  
wisely***

We are spending our health dollars wisely and differently. Change is essential so we can serve an increasing population of seniors, and so we can make new technologies available to those who need them.

Here is what the Ministry of Health is already doing, under the direction of the Honourable Jim Wilson:

- ◆ We are reinvesting \$170 million this year to provide seniors and people with disabilities with care at home instead of in institutions. This means an additional 80,000 people will receive services such as in-home nursing care, housekeeping and meal programs — creating 4,400 new health care jobs in community settings.
- ◆ We are expanding a program to aid in the early detection and treatment of breast cancer, which affects 6,000 women in Ontario each year. We are providing additional funding to treat women with breast cancer and ovarian cancer. The Minister of Health will provide further details.
- ◆ We are providing funds to immunize all schoolchildren against measles, to immunize young people against Hepatitis B, and to immunize seniors and those at high risk against serious pneumonia.
- ◆ Too many patients and their families face the anxiety of long waits for a diagnosis of internal illnesses. To meet this need, the Ministry of Health will provide operating funding for 23 new Magnetic Resonance Imaging machines in locations across the province, bringing the total province-wide to 35.
- ◆ We are reinvesting \$25 million to help hospitals serve areas of high population growth. The Ministry of Health worked with hospitals and the Ontario Hospital Association to reinvest these funds where they are needed most.
- ◆ We are expanding emergency paramedic services, by providing training and by equipping over 400 paramedics across the province to perform life-saving emergency care procedures.
- ◆ We are reinvesting funds to allow patients with acquired brain injuries to be treated in Ontario rather than in the United States.
- ◆ We are protecting emergency services in Northern and rural hospitals by paying doctors on a sessional basis rather than on a fee-for-service basis. This action has enabled over 60 small rural hospitals to keep their emergency rooms open 24 hours a day.

- ◆ We have restored out-of-country OHIP coverage for Ontarians.

The changes we are making will protect Ontario's health care system while reinvesting dollars where they are needed most.

## **Excellence in classroom education**

Ontarians have told us to make sure our school system provides our children with an excellent education — but to rein in spending outside of the classroom. We are doing what the people have asked.

We are working with school boards, teachers and parents to ensure that our school system promotes excellence in student achievement and is accountable to taxpayers. The Sweeney Report found that as much as 47 cents of every education dollar is spent outside the classroom. We have given school boards tools to reduce spending outside the classroom and to bring Ontario's costs into line with those in other provinces.

More fundamental reforms are required. People have told us that the current system is not working — not for parents, not for taxpayers, and most importantly not for the young people who represent our future.

The way we now pay for education favours students in rich school boards at the expense of those in poor ones. People have told us that the current system requires significant changes to make it better for students and fairer to taxpayers.

## **Fairness in local government finance**

In the coming weeks the Government will propose significant change in local government and education financing and will embark on a comprehensive consultation with local representatives. The assessment system in Metropolitan Toronto and other communities is broken and unfair — we want to fix it as well.

We want to see a division of responsibilities between the Province and the local level that delivers services more efficiently and effectively, that makes elected officials more accountable to taxpayers for the services they deliver, that provides a better education for our students, and that provides fair and adequate funding for priority services. The Minister of Municipal Affairs and Housing, the Honourable Al Leach, and the Minister of Education and Training, the Honourable John Snobelen, will provide further details in due course.

***Fundamental reforms in education finance are required***

***Expanding  
the use of  
computer  
technology  
in our  
schools***

## **Access to new technologies for our students**

In partnership with school boards and the private sector, our Government is announcing a series of collaborative projects that will expand the use of leading-edge computer technology projects in our schools.

We are doubling the funding available for innovative uses of technology in the classroom to \$40 million. This amount will be matched by equal funding from school boards and the private sector.

This initiative will create innovative approaches to learning in our schools, such as distance education, Internet access, and electronic learning databases, in addition to helping teachers and school boards share valuable resources.

The Minister of Education and Training will announce details soon of the first projects under this program.

## **Safe communities**

To ensure that people in Ontario are safe in their homes and communities, the Government is working to make our justice system more effective. We are focusing on prosecuting serious crimes, making our courts system more timely and accessible, and protecting funding for front-line policing.

- ◆ To ensure funding is available for front-line services in the justice system, we are going to integrate administrative support services to achieve maximum efficiency.
- ◆ We are launching a major capital investment program to modernize correctional facilities and courthouses.
- ◆ The Ontario Provincial Police are taking action to streamline management and administration to ensure that resources available for front-line policing are maintained.
- ◆ To meet the growing demand for DNA analysis in criminal cases, we are expanding the DNA testing capability of the Centre of Forensic Sciences. The Solicitor General, the Honourable Robert Runciman, will announce further details.
- ◆ We are committing \$2 million a year to community crime-prevention initiatives to assist the voluntary efforts of Neighbourhood Watch, Block Parents, Apartment Watch and other organizations that help keep our communities safe.

## **Supporting volunteers in the community**

Promoting and encouraging both the spirit and the commitment of volunteers is a high priority for our government. We all understand that Ontarians working together can do much more for their communities than government can do alone.

Volunteer organizations are a vital part of communities in Ontario. They understand the needs of their communities best, and they address these needs with a sense of caring that reflects their commitment to helping others. Ms. Julia Munro, the Parliamentary Assistant to the Premier and member for Durham-York, has been working with a number of volunteer organizations and a special advisory group in support of our shared commitment to volunteers across the province.

To support the volunteers who give so generously of their time, this Budget provides up to \$10 million to invest in new measures and new technologies to coordinate and link the voluntary service agencies that already exist in the province. Under a new Linkages program, we will be better able to co-ordinate services and to match people in need of services with volunteers willing to offer their time and skills.

Local charities often have limited financial resources that prevent them from doing all the things they would like to help their neighbours and others in need.

Many charities depend on charitable gaming as a source of vital funding for their efforts. But under current arrangements, too little of the revenue from these games actually flows to charities. In addition, many current charitable gaming activities are difficult to regulate and control, placing their integrity at risk.

To improve regulation and provide a higher yield to charities, our Government will replace the current three-day roving charity events with the establishment of permanent charity event sites. This measure will enhance control of these activities and substantially increase the funds available to local and community charities. It is expected to result in up to \$80 million in extra revenues being made available to Ontario's local and community charities each year. Operators of the current mobile charitable gaming businesses will have an opportunity to bid on the establishment and operation of these new permanent sites through an open competitive process. The Minister of Consumer and Commercial Relations, the Honourable Norman Sterling, will provide further details.

Ms. Isabel Bassett, my Parliamentary Assistant and the member for St. Andrew-St. Patrick, has held extensive consultations on ways to make it easier for public institutions to solicit charitable donations. Based on her findings, the Government will proceed with its plan to introduce legislation to permit the establishment of Crown foundations by public hospitals, public libraries, the Ontario Cancer Treatment and Research Foundation, the Ontario Arts Council, the Royal Ontario Museum, the Art Gallery of Ontario, the Royal Botanical Gardens and

***Ontarians  
working  
together can  
do much  
more for their  
communities  
than  
government  
can do alone***

***Providing  
more secure  
funding for  
community  
charities***

***Ensuring that  
elementary  
school  
children are  
receiving the  
nutrition they  
need***

***Help for  
pre-school  
children with  
speech and  
language  
disorders***

***Investing in  
children's  
health***

certain other public institutions which may qualify, such as the National Ballet of Canada, the Canadian Opera Company, the Toronto Symphony Orchestra, the Shaw Festival, and the Stratford Festival. These foundations provide a tax incentive for major donations to public institutions.

Through this legislation, donations to these foundations will now receive the same treatment as donations to universities, colleges, the Ontario Heritage Foundation, the Trillium Foundation, the Ontario Science Centre, Science North, the McMichael Canadian Art Collection and Ontario Parks.

## **Assisting parents and their children**

Raising children is a demanding job, especially for families where both parents work outside the home. Every Ontarian has an interest in making sure that young children start life in a healthy and secure environment. We all have a stake in their well-being.

This Budget introduces four specific actions to make a real and direct improvement in the lives of our children.

First, we are investing in nutrition for children.

Children who go to school hungry are not going to be good learners. To ensure that elementary school children are receiving the nutrition they need, the Government is forming a partnership with the Canadian Living Foundation for Families to help parents and communities set up and expand local nutrition programs. The Government will provide up to \$5 million this year in start-up funding for this initiative.

By avoiding a large government bureaucracy, this partnership will ensure that the largest possible share of available funding, including donations from individuals and businesses in the community, goes directly towards meeting children's needs.

Second, we are helping children who have speech and language disorders.

This Budget provides \$10 million this year, growing to \$20 million in future years, to expand services for pre-school children with speech and language disorders. About 10 per cent of Ontario's children have a speech or language disorder. Early intervention means that more of these children will be able to function with little or no extra help as they grow older.

Third, we are investing in children's health.

Investing in children's health improves their well-being and their long-term prospects. For example, proper education and support can help young mothers avoid giving birth to babies with low birth weights — which is a major cause of infant death. This Budget provides \$10

million annually to support expectant mothers and families with children under six years old, especially those who would otherwise be at risk. These actions will help more children have a healthier start in life.

Fourth, we will increase the Province's support for child care, bringing it to the highest level in the history of the province.

Today Ontario spends more per capita for child care than any other province with the possible exception of British Columbia.

Ms. Janet Ecker, the member for Durham West, is reviewing child care programs to ensure that funding is provided to those most in need and that parents have affordable child care alternatives.

Ms. Ecker has heard from many working parents about the substantial price they pay to ensure that their children are properly cared for.

The need to expand the child care choices available to parents is real and urgent. To address these concerns, I am announcing today an enhancement of our child care funding that will provide over the next five years an additional \$200 million in support above current levels. This year we will spend \$600 million on child care — the highest in Ontario's history. The Minister of Community and Social Services, the Honourable David Tsubouchi, will provide details on new child care measures following the completion of the child care review.

***\$600 million  
for child care  
— the  
highest in  
Ontario's  
history***

### **Helping young people complete school and get jobs**

We are investing \$57 million this summer to provide 29,000 summer jobs for young people. That's almost 5,000 more jobs than last year. In addition to helping young people meet their education expenses, these jobs provide a wide range of work experience. By giving young people a chance to gain experience and learn meaningful skills, we are helping to ensure that they will have an opportunity to lead productive and independent lives.

Ontario's college and university students are among the greatest strengths of our future economy.

- ◆ To help ensure that students have enhanced employment opportunities, I am introducing a Co-operative Education Tax Credit of up to \$1,000 per co-op placement effective September 1, 1996. This refundable tax credit will provide corporations with a tax savings equal to 10 per cent of the costs of hiring a student who is participating in a recognized co-op program at an Ontario college or university.

***A tax credit  
for  
co-operative  
education***

## ***Ontario Student Opportunity Trust Funds***

- ◆ To help make our education system more responsive to students' needs while keeping it accessible, the Province is working with the Government of Canada to develop an income-contingent student loan program. The objective of this program will be to make loan repayments reflect a student's earnings after graduation.
- ◆ To encourage companies and individuals to contribute to funds for Ontario's students, every college and university will have the opportunity to establish an Ontario Student Opportunity Trust Fund. The Province will match any donation to these trust funds made after today and before March 31, 1997. Monies from each fund will be used to assist academically qualified individuals who for financial reasons would not otherwise be able to attend college or university. It is estimated that the Province will contribute \$100 million towards this initiative, creating \$200 million in trust funds. The interest on these trust funds will help provide a solid base of financial support for Ontario's students.

The Minister of Education and Training will announce further details.

### **Fixing the Canada Pension Plan**

In recent weeks the Government has been consulting with Ontarians on the future of the Canada Pension Plan. These consultations have been carried out by Mr. Ed Doyle, the member for Wentworth East, and Mr. Tim Hudak, the member for Niagara South, along with representatives of the federal government.

Ontarians told us that they want the Canada Pension Plan fixed so that their pensions will be there when they retire. They also told us to keep tight control on payroll taxes, because payroll taxes kill jobs.

In June, federal and provincial finance ministers will meet to discuss the plan's future design.

Ontario's goal is to ensure that the Canada Pension Plan is put on a sound financial footing once and for all. We want to ensure that the pensions people are counting on will be there when they retire, and that future generations will not be saddled with trying to fund a plan that is not financially solvent. We will work to eliminate waste, overlap and duplication, and to ensure fairness in benefit administration.

## Meeting Ontario's transportation needs

This Budget provides \$2.7 billion this year for capital spending.

That includes over \$700 million for roads and highways. Our provincial highway system is a lifeline of our economy. The condition of our highways is essential in attracting new businesses, in moving goods to our major trading partners, and in enticing tourists to Ontario. Up-to-date infrastructure is essential for Ontario's economic competitiveness.

Too many of our highways are in poor condition. To help restore this provincial asset, while creating jobs and improving highway safety, we are committing an additional \$100 million this year to an accelerated program of repaving and repairing highways.

We will also provide \$60 million to municipalities this year to accelerate repairs to highways that are being transferred to their jurisdiction, and to highway connecting links that require urgent repair.

In addition, this Budget provides over \$100 million over the next four years to address safety deficiencies of municipal transit systems across the province. The Minister of Transportation, the Honourable Al Palladini, will provide further details.

## Enforcing the tax laws and reducing the cost of tax administration

To make the investments in the programs that Ontarians want and value, it is essential that every taxpayer pay the amount of tax that he or she is legally required to pay. Law-abiding taxpayers have told me they want to crack down on tax evaders — they are tired of paying additional taxes on behalf of those who refuse to pay.

- ◆ The Provincial Auditor has recommended that the Government do more to identify those who may be evading Retail Sales Tax and to increase the number of audits that are performed. I can confirm today that we are taking action on each of his recommendations.
- ◆ In addition, effective August 1, successful bidders on Ontario Government contracts will be required to provide confirmation that their provincial taxes are in good standing. This measure will apply to all tendered contracts.
- ◆ I am adding 186 new audit and collections staff to the Ministry of Finance over the next three years, including 50 re-assigned from other duties. These staff will help collect additional revenues estimated at \$80 million annually by 1998-99.
- ◆ Once we have exhausted all government collections procedures, we will tender to the private sector the balance of uncollectable tax accounts.

***Creating jobs  
and making  
highways  
and transit  
systems  
safer***

***Cracking  
down on tax  
evaders***

## ***Harmonizing tax laws and reducing duplication***

- ◆ The method of calculating interest on overdue taxes will be harmonized to bring interest charges in line with those of Revenue Canada. Other penalty and interest provisions will be harmonized with federal statutes where appropriate.
- ◆ The Ministry of Finance will set up a new hotline for the reporting of suspected fraud or abuse, as I promised. Ontarians will be able to call the hotline at 1-888-TIP-INFO (1-888-847-4636), starting June 15.

A number of amendments will be introduced to improve tax enforcement. Details of tax measures are provided in Budget Paper A.

At the same time, the Government will pursue opportunities to lower the cost of complying with tax laws by harmonizing and reducing duplication.

- ◆ To simplify the tax system and reduce administration, the Ministry of Finance will examine options to harmonize Ontario's capital tax on financial institutions with the federal capital tax. Consultations will be held with the financial services industry.
- ◆ To reduce compliance costs for business, Ontario will harmonize with the changes to corporate income taxes introduced in the 1995 and 1996 federal Budgets.

Ontario will continue to co-operate with the federal government to reduce tobacco smuggling. The federal and Ontario governments agreed to share equally any recovery of the 1994 tobacco tax reduction. In recognition of this agreement, and to reduce the incentive for unwarranted tobacco price increases that may rekindle smuggling, I am amending the *Tobacco Tax Act*. The tobacco tax will be linked to any future changes in the selling price of cigarettes. We also will fully harmonize with the federal tobacco levies by matching any future increases or decreases in those levies.

Tax harmonization must be a two-way street. Ontario is already harmonized with the federal personal income tax system.

- ◆ But when we asked the federal government to administer the Fair Share Health Care Levy as we designed it in the Common Sense Revolution — as a tax on taxable income — the answer was: not now.
- ◆ When we asked them to use the income tax system to enforce child support agreements when parents do not pay, the answer was: not now.

- ◆ When we asked them to use the income tax system to help recover money that is owed to the Province by people who received more social assistance than they were entitled to, or by students who have defaulted on their loans, the answer was: not now.

These federal delays do not make sense. They mean that less money is available to support children or to make new student loans. Ontario is prepared to act immediately on these initiatives, taking actions that people have told us they support, and ensuring the continued viability of the harmonized income tax system.

## **BUILDING A BETTER TOMORROW**

Balancing the Budget, eliminating the deficit, and turning around the growth in debt are not ends in themselves — they are a means to an end. The end is a more prosperous Ontario, where people can once again feel secure about their jobs, their families, their communities and their future, and feel better about themselves.

Building a better future for Ontarians means that we must restore the environment that allows businesses to create jobs.

My colleagues and I promised Ontarians we would take a new approach to getting our economy growing — by making Ontario a great place in which to live, work and invest.

We have put an end to more than 30 direct business subsidy programs. In my opinion, most business subsidies don't create lasting jobs. Too often, the job ends as soon as the government grant ends. Cutting these programs will save taxpayers \$230 million in grants and loans in 1996-97.

Our Government is taking a different approach.

- ◆ We are breaking down the barriers to job creation.
- ◆ We are cutting payroll taxes that kill jobs.
- ◆ We are changing the rules so that banks and private investment funds will invest more money in new and growing businesses that create jobs.
- ◆ And we are changing taxes that have blocked the growth of important sectors of our economy.

### **Breaking down the barriers to job creation**

Our Government is breaking down the barriers to job creation. We have passed legislation to restore the balance in relations between workers and employers. We have repealed job quotas. We have frozen average Ontario Hydro rates until the year 2000.

***A new  
approach to  
getting our  
economy  
growing***

***Eliminating  
overlap and  
duplication  
in loan and  
trust  
regulations***

***Private  
sector leads  
the way in  
job creation***

The Red-Tape Review Commission, headed by Mr. Frank Sheehan, the member for Lincoln, is finding ways to eliminate unnecessary regulations and make government work better for Ontarians.

This year, we will extend the sunset provision of the *Loan and Trust Corporations Act* and take action to eliminate overlap in the regulation of the loan and trust industry. We will remove the outdated requirement that Ontario duplicate regulatory activities already undertaken by other jurisdictions in Canada. By harmonizing with federal regulations, we will get rid of an unnecessary layer of regulation of this important industry. We will set out our direction in a policy paper to be issued for public comment in the near future.

**Accelerating Ontario's economic growth**

While the task of making Ontario a good place to create jobs is by no means completed, already Ontarians can see signs that we are going in the right direction.

Between June 1995 and March 1996, Ontario's private sector created 90,000 jobs. That's well over 300 net new private-sector jobs every day.

I know that the public sector is cutting back — at all levels. Many good and hard-working people are finding themselves on the job market for the first time in years.

But for every job lost in the broader public sector in the last nine months, almost four jobs were created in the private sector. We have to make this adjustment to get Ontario growing again.

To date this year we have more jobs in manufacturing than we had a year ago, more jobs in construction, more jobs in services, more jobs in the wholesale and retail sector, and more jobs in transportation and communications.

Investors are recognizing that Ontario is once again a good place to do business. Investment stands at record-high levels, and Ontario's investment growth is outpacing the rest of Canada.

- ◆ Magna International Inc. has chosen St. Thomas as the location for its new truck frame plant, creating over 700 jobs.
- ◆ Premier Harris recently participated in the ground-breaking for Honda of Canada's expansion in Alliston, which will create 1,200 permanent new jobs.
- ◆ The forest industry has announced additional investments in communities such as Thunder Bay, Red Rock and Marathon.
- ◆ Placer Dome recently committed \$260 million to develop its Musselwhite gold property north of Pickle Lake.

- ◆ Bayer Rubber Corporation is investing \$61 million to build two new chemical plants in Sarnia.
- ◆ The Pacific Century Group is working in partnership with IBM Canada and Rogers Cablesystems on a \$100-million project to build four condominium towers with fibre-optic wiring in downtown Toronto.

Investments such as these bring real benefits in the form of jobs for Ontario's people.

To help more companies grow and compete, I am announcing a new, private-sector-driven approach to business development.

- ◆ A new Partnerships for Jobs and Growth initiative will complement our efforts to improve the business climate.
- ◆ It will support innovation, encourage Ontario's entrepreneurs, strengthen Ontario's sectors, bridge the training gap, extend global reach, and strengthen economic development at the local level.
- ◆ Addressing these issues will make Ontario a more competitive, productive and successful trading economy.
- ◆ In its initial year, 1996-97, \$50 million of the savings from other programs will be reinvested to support Partnerships for Jobs and Growth. The Minister of Economic Development, Trade and Tourism, the Honourable William Saunderson, will announce further details.

The strongest area of our economy has been the export sector. Exports are at record levels and are expected to increase by a further 8.7 per cent in 1996. The motor vehicle industry — our largest manufacturing exporter — achieved the highest level of production in its history last year.

Overall, Ontario businesses plan to increase their investment spending for machinery and equipment by 3.2 per cent this year. Investment spending on new commercial and industrial buildings will grow by 5.4 per cent. According to the Conference Board of Canada survey of business confidence, 53.9 per cent of Canadian businesses consider Ontario to be the best province in which to invest.

Consumers are beginning to feel more confident, too. Home resales have improved by 36 per cent this year from last year's low levels — backed by interest rates that are at their lowest since July 1994. And the inflation rate is holding at less than two per cent.

In sum, Ontario's economic expansion is taking hold and accelerating. Our forecast — which is deliberately cautious — is that the economy will expand by 1.9 per cent this year and by 2.8 per cent in 1997. Most forecasters expect that we will do even better.

***Ontario's  
economic  
expansion is  
taking hold  
and  
accelerating***

***Making more  
equity capital  
available to  
emerging  
small  
businesses***

## **New sources of investment for growing businesses**

A large share of Ontario's new jobs will come from new and growing businesses. These businesses need access to sources of capital that believe in their potential and are prepared to maintain their investment until that potential is fully realized. I am taking action today to help make that happen.

Labour-sponsored investment funds (LSIF) have become well established as a source of capital for entrepreneurs, especially for those requiring capital of between \$1 million and \$10 million. At present Ontario labour-sponsored investment funds hold assets of \$1.2 billion — including more than \$600 million that they are required to invest in eligible businesses over the next three years.

- ◆ I am introducing stricter investment rules today to ensure that capital raised by these funds is made available more quickly to Ontario's entrepreneurs — and especially to businesses that are not yet big enough to raise capital on the stock market.
- ◆ To reduce costs to the taxpayer, I am harmonizing with the federal government by limiting the Ontario tax credit for new LSIF investments to 15 per cent, effective today. I am also harmonizing with the changes to this program that were announced in the federal Budget.

## **Bringing banks and small businesses together**

Banks too must play a key role in the new economy by increasing their longer-term financing of Ontario's innovative growth firms — especially smaller businesses.

- ◆ Effective midnight tonight, we will harmonize with the federal measure by imposing a temporary surtax on the capital tax paid by banks.
- ◆ We will provide a Small Business Investment Credit against this tax to banks making equity capital investments in small businesses in Ontario. Banks that increase the availability of equity capital for small business will be able to earn back the surtax over three years.

- ◆ We will make sure that banks that do business with the Provincial government are also doing business with Ontario's entrepreneurs. Starting this year, banks that wish to provide services to the Province will be required as part of their tender bid to show a comprehensive record of small business lending.

In addition, the Government will consider innovative ideas to foster the establishment of private-sector financed equity funds that focus on new and emerging small businesses. I have asked Mr. Rob Sampson, my Parliamentary Assistant for Financial Institutions and the member for Mississauga West, to lead this review and to report back to me. He will be assisted by Mr. Joe Spina, the Parliamentary Assistant for Small Business and the member for Brampton North.

### **Unified and efficient Canadian equity markets**

The Ontario economy needs a strong, globally competitive capital market, and Ontario companies need access to equity financing without the extra costs and delays caused by regulatory duplication. Strong and well-regulated stock exchanges are good for business, and they are good for Toronto — the heart of Canada's financial sector.

To make it easier for companies to raise funds in Canadian equity markets, Ontario will pursue an agreement with the federal government and with other interested provinces to delegate responsibility for securities regulation to a Canadian Securities Commission.

### **Supporting Ontario's film industry in competing and creating jobs**

Ontario has become one of the major film production centres in North America. The strategic alliance in animation productions between Sheridan College and the Disney Corporation is but one example of the kind of new investment that the film industry can bring to the province — creating skilled jobs for talented people. But this industry faces stiff competition because of the incentives offered by other jurisdictions.

- ◆ To ensure that Ontario remains a major player in the North American industry, I am introducing a film and television tax credit that harmonizes with the federal tax credit introduced last year and targets the benefits to Ontarians. This refundable tax credit will be 15 per cent of the eligible labour costs in Ontario, effective July 1, 1996.
- ◆ The Government will double the value of the credit for filmmakers making their first commercial production. These measures will be administered jointly with the Ontario Film Development Corporation.

***A new tax  
credit for film  
investments***

## **Adding to Ontario's call centre advantage**

Bell Canada has been a pioneer in servicing over 1,500 major call centres in the province — creating competitive advantage by providing toll-free service to customers. Increasingly, these centres require employees with advanced skills — for example, service agents who explain complex financial services, or technicians who can install and repair state-of-the-art telecommunications equipment.

In recent weeks Unitel Communications has chosen to locate a new call centre in Toronto, creating 250 jobs. S&P Data Corporation has announced plans for a new call centre in North Bay, creating 328 jobs.

These companies, and others like them, have discovered that Ontario offers a highly skilled workforce, bilingual and multilingual communities — including those in Northern and Eastern Ontario — advanced digital telecommunications technology, and proximity to North America's major consumer markets.

Ontario is determined to keep the jobs that these companies create. To help do so, I am exempting from the Retail Sales Tax the 1-800 and 1-888 telephone services purchased by business, effective July 1. This measure will bring Ontario into line with the tax incentive provided by seven other provinces.

## **Expanding access to telecommunications**

Jobs and growth in the Ontario economy will depend on our ability to develop and use the information highway.

In partnership with Ontario's telecommunications and computing industries, we have already built sophisticated networks, some of which primarily serve the public sector such as health, education and Ontario Hydro.

New telecommunications applications offer the potential for significant improvements in the accessibility, timeliness and cost-effectiveness of public-sector services. We will explore how best to use existing public-sector networks, especially in rural areas of Ontario. We will also look at the merits of an expanded role for the private sector.

In addition, we will reinvest \$20 million found from other programs, for Telecommunications Access Partnerships to work with entrepreneurs, sectors and communities to improve Ontario's competitiveness through advanced telecommunications applications and infrastructure.

The Minister of Economic Development, Trade and Tourism will announce details.

## **Building homes, creating jobs**

While many other sectors have returned to their pre-recession level of production, Ontario's housing industry has not yet recovered. New housing starts this year are projected to be less than half their 1989 level.

To encourage people who have been waiting to buy their first home, first-time buyers who purchase a newly constructed home after today and before March 31, 1997 will receive a refund of their Land Transfer Tax. The maximum refund will be \$1,725, equivalent to the tax on a \$200,000 home. Coupled with lower interest rates and more affordable pricing, this measure will help bring home ownership within reach for more families. In addition, it will create jobs in building, furnishing and equipping these new homes.

***A tax rebate  
for first-time  
buyers of  
newly  
constructed  
homes***

## **Bringing tourism and hospitality jobs to Ontario**

The tourism and hospitality industry attracts millions of dollars to Ontario and creates thousands of jobs.

For many years the competitiveness of the hotel industry in Metropolitan Toronto has been hindered by property taxes that are higher than those on other commercial property. Over the coming year, the Government will take action to address this disadvantage as part of its review of property tax reform.

To assist Ontario's hospitality industry, the Ontario Lottery Corporation will develop a plan to introduce a limited number of video lottery terminals (VLTs) at selected locations across the province.

In recent years, the gaming marketplace has expanded dramatically, with numerous new products and activities which have made control and regulation difficult. In addition, the Ontario Provincial Police have indicated that illegal gaming activity is increasing, with thousands of video lottery terminals operating illegally in Ontario. It is anticipated that the establishment of a tightly regulated, government-managed VLT network, along with other measures announced in this Budget, will counter illegal gaming activity, and impose some needed discipline and control into Ontario's gaming marketplace.

The Ontario Lottery Corporation will be responsible for the operation and management of the VLT network, and the Ontario Gaming Control Commission will oversee and control every aspect of VLT gaming activity. We believe that VLTs, if implemented within tight regulatory controls and in limited-access environments, can meet a legitimate entertainment demand and provide a significant stimulus to the hospitality industry.

In designing Ontario's VLT program, the Ontario Lottery Corporation will take advantage of lessons learned in the eight other provinces in Canada where VLT networks already exist. The detailed implementation plan developed by the Ontario Lottery Corporation, in consultation with the Ontario Gaming Control Commission, will be

***\$180 million  
for charities  
to help them  
meet  
community  
needs***

designed to ensure that the installation of terminals and the expansion of the VLT network proceeds in a measured way, and that appropriate controls and regulatory provisions exist at each stage of the process. In addition, to encourage responsibility among those participating in gaming activity, and to assist those affected by problem gambling behaviour, two per cent of total terminal revenues will be set aside to establish a comprehensive problem gambling strategy that will include public awareness, prevention, treatment and research components.

Initially, VLTs will be located only at race tracks and permanent charity event sites — locations where the machines can be closely monitored and where they will complement other existing gaming activities. Once an acceptable implementation plan is developed, the network can then be expanded to the hospitality industry, having regard to the following guidelines:

- ◆ terminals will be located only in separate areas within liquor-licensed establishments where access can be restricted to those 19 years of age or older;
- ◆ licensed premises that fail to enforce this age restriction will have their liquor licences suspended or revoked;
- ◆ the total number of terminals in the province will be limited to fewer per capita than in any other province with a VLT network;
- ◆ the host site will receive 10 per cent of total terminal revenues;
- ◆ 10 per cent of total terminal revenues will be provided to charitable organizations in the province.

As a result of initiatives in this Budget, charitable organizations will now be provided with up to an additional \$180 million annually to help them meet community needs.

The recession and the expansion of legalized gaming activities in recent years have adversely affected Ontario's horse racing industry, which is one of the largest in North America. The introduction of VLTs at race tracks will attract patrons and generate revenues for the industry.

To bring this industry's taxes in line with its competitors, and to protect the jobs of those it employs throughout rural Ontario, I will be reducing the Race Tracks Tax rate to 0.5 per cent on all wagers. This rate reduction will take effect when the Government is assured that the horse racing industry has in place an effective plan to share the additional resources fairly and to secure the future of Ontario's horse racing industry. The Minister of Consumer and Commercial Relations will work with the industry to develop this plan.

## Strengthening the Greater Toronto Area

The economy of the Greater Toronto Area (GTA) provides half of the province's entire economic output and 43 per cent of its employment. The GTA is Canada's major business and financial centre, and the hub of communications, transportation and wholesaling networks that serve the Great Lakes economy. Without strong growth in the GTA, Ontario's economy cannot perform well.

After a prolonged recession that lasted nearly two years longer than in the rest of Ontario, the GTA's economy is growing again. Employment surged ahead by 82,000 jobs in 1995, compared to a loss of 8,000 jobs in 1994.

While the GTA's economy is growing again, the antiquated nature of the property tax system in many of its municipalities is cause for concern. The need for reform was highlighted by the report of the Golden Task Force. To ensure that the GTA economy continues to be a driving force within Ontario, we are carefully reviewing the Golden Task Force's recommendations to ensure that we have the best possible plan for the sustained health of the GTA and the Province. Our review will also include consideration of the findings of the GTA Panel chaired by Ms. Libby Burnham.

## Bringing jobs and growth to Northern Ontario

The Government is also determined to bring new jobs and growth to Northern Ontario.

The Northern Ontario Heritage Fund Corporation will be refocused away from direct financial assistance to businesses and towards the funding of infrastructure improvements and development opportunities in Northern Ontario. Specifically, the Corporation will direct its financial resources towards:

- ◆ the development and marketing of regional tourism enhancement projects,
- ◆ telecommunications and transportation infrastructure improvement, and
- ◆ other economic development initiatives to ensure Northern communities remain attractive places to live and work.

The former government took \$60 million from the Heritage Fund on March 31, 1995. This money was specifically allocated to be used for the benefit of Northerners and should never have been transferred into general provincial revenues. Based on recommendations from my colleague, the Minister of Northern Development and Mines, the Honourable Chris Hodgson, I am returning these funds to the Heritage Fund today, along with \$5 million in accumulated interest.

***Returning  
\$60 million  
plus interest  
to the  
Northern  
Ontario  
Heritage  
Fund***

As a result, the Fund now contains over \$120 million to be used exclusively for the benefit of the people of Northern Ontario. The Government will continue to provide \$30 million annually to the Heritage Fund.

To eliminate duplication, achieve economies of scale, and enhance the returns to the Heritage Fund, we will establish improved financing arrangements between the Fund and the Ontario Financing Authority. The management fees paid by the Fund will be eliminated and its rate of return improved, maximizing the Fund's ability to meet the economic development and infrastructure needs of current and future generations of Northerners.

Our efforts to improve the North's business climate will help sustain strong resource exports and investment that have been creating jobs. Freezing all mining taxes and *Mining Act*-related fees and licences will encourage investment in Northern resource sectors. A reduced regulatory burden on forestry and mining and streamlined approvals that maintain environmental standards will also lead to increased economic growth. A total of \$138 million also will be provided this year for repaving and repairing Northern roads — up \$40 million from 1995-96.

To foster development in the far north of the province, the Minister of Northern Development and Mines will investigate opportunities for partnerships between government and the private sector to build infrastructure and stimulate resource development in remote areas north of the 51st parallel, which extends approximately from Moosonee to Red Lake.

## **Strengthening agriculture and rural development**

Across rural Ontario, communities are taking action to develop their full economic potential. New technologies are changing the nature of traditional industries and creating opportunities for new businesses.

Our government is taking steps to ensure the long-term growth and prosperity of rural Ontario.

- ◆ We have repealed legislation that permitted trade unions to invade the family farm.
- ◆ We are working on dismantling Bill 163 — the *Planning and Development Reform Act* — to expedite the planning process, and empower municipalities while maintaining tough environmental standards.
- ◆ We are retaining the Farm Property Tax Rebate program, pending the reform of municipal property taxes.
- ◆ We are increasing agriculture's share of the operating budget in 1996-97.

The needs of rural communities are unique, and the challenges facing them are different from those of urban Ontario. The new Ontario Municipal Support Program stands as evidence of our government's understanding of this fact.

Bringing economic stimulus to rural Ontario is a top priority. Agriculture and food is the province's second-largest goods-producing sector, and there is great potential for expansion in many areas — from aquaculture to ethanol production. Such expansion will benefit from our commitment to eliminate red tape and needless regulations throughout government.

To promote growth in rural Ontario, this Budget provides \$15 million to stimulate research, market development, investment, and competitiveness in the agriculture and food sector. The new Grow Ontario Program will strengthen the capacity of small and medium-sized farm and food sector groups and rural communities to compete in the global marketplace. The Minister of Agriculture, Food, and Rural Affairs, the Honourable Noble Villeneuve, will provide details.

To assist Ontario's farmers further and provide additional economic stimulus in rural areas, I will provide a rebate of the eight per cent Retail Sales Tax paid on building materials purchased by commercial farmers to upgrade or modernize farm operations after today and on or before March 31, 1997.

***A tax rebate  
to upgrade or  
modernize  
farm  
operations***

## **CUTTING TAXES, CREATING JOBS**

While our economy is growing again, Ontarians know that— however competitive we may be abroad — the benefits are not yet being felt by many here at home.

Too many people are out of work in Ontario. Even those who are working have seen their standard of living fall. Men and women who work hard to raise their families and keep their homes, who in many cases have not seen a pay raise in several years, have been hammered by years of tax increases. In the past 10 years provincial taxes have been raised 65 times. That includes 11 increases in Ontario's personal income tax. In good times and bad, the government has put its hand deeper and deeper into the pockets of Ontario's people.

As a result, in real inflation-adjusted terms, the take-home pay of the average Ontario worker is lower today than in 1985.

Ontario can and must do better — much better.

***Unless we  
reduce our  
current  
levels of  
taxation, we  
will never  
return to  
prosperity***

***Exempting  
the first  
\$400,000 in  
annual  
payroll from  
the Employer  
Health  
payroll tax***

Our economy has the capacity to produce billions of dollars a year more in additional economic output than it is producing today. The use of our existing plants and equipment could be much higher; and if that were the case, production would rise. There is no need for us to accept a rate of growth that keeps good people out of work and good capacity out of use.

Unless we reduce our current levels of taxation, we will never return to prosperity. We will never create enough jobs to give Ontarians a secure future. We will never generate enough revenues to balance the Budget.

To build a better future, we have to give Ontario's economy a break. We have to give the people of Ontario and future generations a break.

### **Cutting payroll taxes that kill jobs**

During the 1980s, small businesses were the province's largest source of new jobs. Yet in the 1990s they have suffered major job losses.

A big part of the problem is the heavy payroll tax burden borne by small business.

To help businesses create jobs, I am fulfilling today our commitment to exempt the first \$400,000 in annual payroll from the Employer Health payroll tax. This tax cut will be introduced in three steps, starting January 1, 1997, and will be fully implemented on January 1, 1999.

Ontarians want to see small businesses expand and hire new workers. Yet the current payroll tax penalizes them for doing exactly that. It increases the ongoing cost of hiring a new worker by as much as four per cent for a small and growing business. In addition, the payroll tax imposes a substantial and unnecessary paperwork burden on employers who may have only a single employee. Ontario and Quebec are the only provinces that impose a provincial payroll tax on small employers.

The former government changed this tax five times without fixing its underlying problems. Their one-year tax exemption for increased payrolls added to the paperwork burden on employers, and it did not provide permanent tax relief. I am replacing it with a permanent tax reduction.

By 1999, 88 per cent of Ontario employers will no longer have to pay this job-killing tax. That means 270,000 employers can spend less time filling out forms for the government and more time doing productive work. This tax cut will remove a barrier that discourages small and growing businesses from creating jobs.

To reduce the payroll tax burden further, we will deliver on our commitment to reduce the average Workers' Compensation assessment rate by five per cent.

## Cutting income taxes by 30 per cent over three years

We will also cut taxes for the people of Ontario — providing real and immediate benefits from our actions to make government smaller, and helping to create the jobs that people want.

My colleagues and I said we would cut personal income taxes by an average of 30 per cent over three years, with half of that cut to be provided in our first Budget. We promised that Ontarians with higher incomes would pay their fair share for the health care system. Today we are delivering on those promises.

- ◆ Ontario's income tax rate will be cut by 30.2 per cent over three years.
- ◆ The first step will take effect this July 1, 1996 — less than 60 days from today. That is the earliest date allowed under the federal-provincial tax collection agreement. The amount of income tax deducted from people's paycheques will be reduced starting July 1 to reflect a tax rate of 54 per cent of Basic Federal Tax for the second half of 1996. That's down from 58 per cent at present.
- ◆ The second step will take effect on January 1, 1997. Beginning January 1, 1997, Ontario's income tax rate will be 49 per cent of Basic Federal Tax. That will bring us slightly more than half-way to a 30.2 per cent cut in Ontario's tax rate.
- ◆ The rest of the tax cut will be phased in between 1997 and 1999. In 1999, Ontario's tax rate will be 40.5 per cent. That's 30.2 per cent less than it is today.
- ◆ When the tax cut is fully implemented, 520,000 taxpayers with modest incomes will get a tax cut that is greater than 30 per cent. Another 635,000 individuals with lower incomes will continue to pay no Ontario income tax at all.
- ◆ Those with higher incomes will pay a Fair Share Health Care Levy. In the Common Sense Revolution we proposed that this levy take the form of a tax on taxable incomes. The federal government has refused to implement the tax that we designed. Therefore, the Fair Share Health Care Levy will be incorporated into Ontario's existing surtax. For example, a single individual with no dependants will pay the Fair Share Health Care Levy only if his or her salary exceeds \$52,315 a year. The levy will be adjusted as the tax cut is phased in. The payroll tax on the self-employed will be eliminated. The additional revenues the Fair Share Health Care Levy generates will offset the loss from the new Employer Health Tax exemption.

***91 per cent  
of all  
taxpayers  
will see an  
Ontario tax  
cut of 30 per  
cent or  
greater.***

It is a privilege, on behalf of the Government and people of Ontario, to introduce today legislation that will cut Ontarians' taxes this July 1st and again on January 1st, 1997.

The benefits of these measures are clear:

- ◆ 91 per cent of all taxpayers will see an Ontario tax cut of 30 per cent or greater.
- ◆ All taxpayers with incomes of \$60,000 or less will see their Ontario taxes fall by 30 per cent or more.
- ◆ 64 per cent of the benefits from this tax cut will be concentrated on middle-income Ontarians earning between \$25,000 and \$75,000 a year.
- ◆ For those with higher incomes, the 30.2 per cent rate cut will be offset in part by the Fair Share Health Care Levy. Everyone will see his or her taxes cut, but the percentage benefits will be greater for those with moderate and modest incomes. Ontario's income tax system will be more progressive when the tax cut is fully implemented than it is today. That's fair for everyone.
- ◆ The marginal tax rate on those with higher incomes — which can be almost 55 per cent for a self-employed entrepreneur and which poses a significant disincentive to investment — will be reduced to 49.6 cents on each additional dollar earned, the second lowest in Canada.
- ◆ Best of all, these tax cuts will mean more jobs for Ontarians. People will have more dollars to spend, more dollars to pay down their debts, more dollars to invest in new businesses, and more incentive to create jobs in Ontario.

I can remember, only a few short years ago, when governments thought taxes could go in only one direction: *up*. This Budget does just the opposite. It cuts taxes a total of 10 times.

## CONCLUSION

This is a Budget for the people of Ontario. This is a Budget that:

- ◆ Spends taxpayers' dollars more wisely;
- ◆ Promotes job creation in the private sector;
- ◆ Helps those in genuine need; and
- ◆ Reduces the tax burden on middle-income and low-income taxpayers.

Reducing the deficit will mean lower borrowing costs. Lowering borrowing costs means we will have more money to invest in the programs that Ontarians value the most. Creating efficiencies in government reduces the burden on all of us.

The changes we are making are based on our belief that Ontario can have a better future:

- ◆ An Ontario that has freed its children and grandchildren from the burden of government deficits and growing debt.
- ◆ An Ontario that provides programs that will take care of people in need of permanent help and gives a hand up to those requiring temporary assistance.
- ◆ An Ontario that leads Canada in jobs, in investments, in health care, in education and community safety.
- ◆ An Ontario that creates a society that not only believes in compassion and justice, but has the financial capacity to make it a reality.

To set Ontario in this new direction has taken vision and courage, which have been the hallmark of Premier Mike Harris' leadership. I salute him for his leadership, and thank him for his support.

We have heard the people of Ontario. The people of Ontario told us they want a Government that works for them and not the other way around.

They want an Ontario where hard work is rewarded, where initiative is encouraged.

They want an Ontario where their children can grow, where young people have hope and opportunity. An Ontario where social justice and fiscal responsibility are the rule rather than the exception.

These are the principles and beliefs my son Justin shared. They can be tomorrow's reality.

With the initiatives announced today, the people of Ontario can meet the challenges of the twenty-first century confident that tomorrow will be better than today for themselves — and for their children.











***“The people of Ontario want to know that tomorrow will be better than today — for themselves, and for their children.”***

77

Government  
Publications

# 1996 Ontario Budget

## Budget Papers

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pt. 2



The Honourable Ernie Eves, Q.C.  
Minister of Finance  
 Ontario

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005743

BUDGET PAPER 96

\$ 0.00



# **1996 Ontario Budget Budget Papers**

Presented to the  
Members of the Legislative  
Assembly of Ontario by  
The Honourable Ernie Eves, Q.C.  
Minister of Finance  
May 7, 1996

General enquiries regarding policy in the  
*1996 Ontario Budget: Budget Papers*  
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Toronto, Ontario M7A 1Y7  
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880 Bay Street, 5th Floor  
Toronto, Ontario M7A 1N8  
Toll-free long distance 1-800-668-9938

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ISBN 0-7778-5209-8

Back cover: Illustration by Ada Lee, age 9, student at Jesse Ketchum Public School.

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## **Your Ontario Tax Cut**

# **BUDGET PAPER A:**

## **YOUR ONTARIO TAX CUT**

Introduction

Your Ontario income tax cut

Cutting the Employer Health Tax

Details of changes to the Income Tax Act and the Employer Health Tax Act

Details of changes to other tax statutes

# Introduction

The 1996 Ontario Budget cuts income taxes for all Ontarians.

- ◆ Ontario's income tax rate will be cut by 30.2 per cent over three years.
- ◆ The Ontario Tax Reduction for low-income taxpayers will be changed so that more low-income taxpayers will benefit from it. This means low-income taxpayers will see a tax cut that is greater than 30.2 per cent.
- ◆ A Fair Share Health Care Levy will be incorporated into the existing income tax surtax. This means higher-income taxpayers will see a tax cut, but it will be less than 30.2 per cent.

The income tax cut will be phased in.

The first step will take effect July 1, 1996. Ontarians will start to see the savings in their paycheques for the pay periods starting July 1.

The second step will take place on January 1, 1997. The tax cut will be fully in place in 1999.

The 1996 Ontario Budget also introduces an exemption from the Employer Health Tax on the first \$400,000 of Ontario payroll costs. This measure will especially assist smaller employers.

## Your Ontario Income Tax Cut

Ontario's income tax cut will make the tax system fairer.

- ◆ Every taxpayer will get a tax cut.
- ◆ Every taxpayer with less than \$60,000 of income will get a tax cut of 30 per cent or greater.
- ◆ Taxpayers with low incomes will get the largest percentage tax cuts.
- ◆ The top 10 per cent of taxpayers will get an average tax cut of less than 30 per cent due to the Fair Share Health Care Levy.

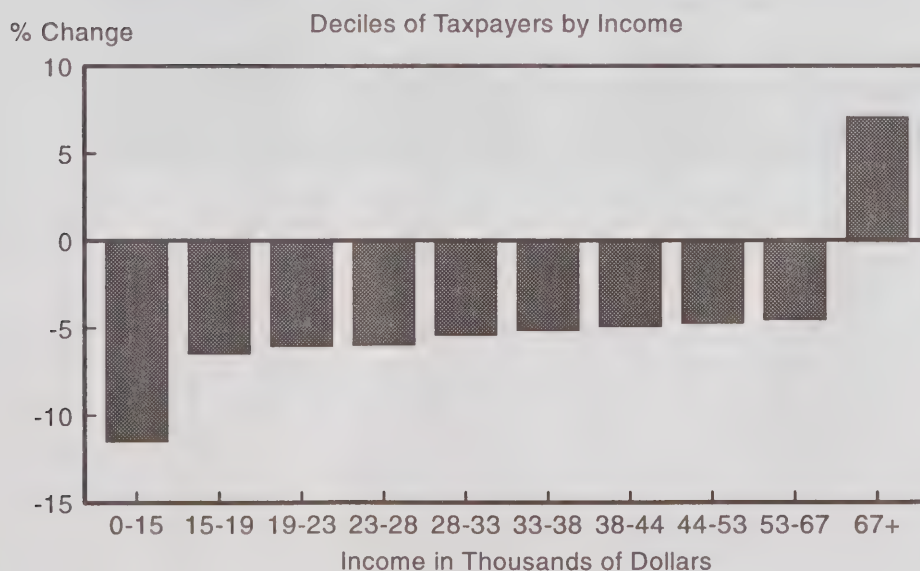
Income Group (\$)	Share of All Taxpayers (%)	Average Ontario Tax Cut When Fully Implemented (%)
Less than 14,900	10.0	41.4
14,900 - 19,175	10.0	33.7
19,175 - 23,530	10.0	32.3
23,530 - 28,000	10.0	31.8
28,000 - 32,500	10.0	31.4
32,500 - 37,700	10.0	30.9
37,700 - 44,050	10.0	30.5
44,050 - 53,200	10.0	30.4
53,200 - 67,300	10.0	30.3
67,300 - 69,250	1.0	29.6
69,250 - 71,750	1.0	29.3
71,750 - 74,600	1.0	28.4
74,600 - 78,500	1.0	27.5
78,500 - 83,700	1.0	26.6
83,700 - 90,750	1.0	25.6
90,750 - 102,500	1.0	24.6
102,500 - 123,000	1.0	23.2
123,000 - 172,500	1.0	21.7
172,500 - 247,500	0.5	19.6
247,500+	0.5	17.9
<b>Total/Average</b>	<b>100.0</b>	<b>31.8</b>
Includes impact of income tax rate cut, Ontario Tax Reduction adjustment, and Fair Share Health Care Levy.		

## A More Progressive Tax System

Ontario's income tax cut, combined with the Ontario Tax Reduction and the Fair Share Health Care Levy, will make the tax system more progressive.

- ◆ When the tax cut is fully implemented, the top 10 per cent of Ontario taxpayers--those with individual incomes above \$67,300--will pay 45.0 per cent of Ontario's personal income tax revenues. Without these changes in Ontario's income taxes, they would pay 42.2 per cent of Ontario personal income tax revenues. In other words, their share of the total Ontario personal income tax burden will go up by 6.6 per cent. (45.0 is 6.6 per cent more than 42.2.)
- ◆ When the tax cut is fully implemented, the top 1 per cent of Ontario taxpayers--those with individual incomes above \$172,500--will pay 18.4 per cent of Ontario's personal income tax revenues. Without these changes in Ontario's income taxes, they would pay 16.4 per cent of Ontario personal income tax revenues. In other words, their share of the total Ontario personal income tax burden will go up by 12.2 per cent. (18.4 is 12.2 per cent more than 16.4.)
- ◆ When the tax cut is fully implemented, the 20 per cent of Ontario taxpayers with the lowest incomes--those with individual incomes below \$19,175--will pay 2.9 per cent of Ontario's personal income tax revenues. Without these changes in Ontario's income taxes, they would pay 3.1 per cent of Ontario's personal income tax revenues. In other words, their share of the total Ontario personal income tax burden will go down by 6.5 per cent. (2.9 is 6.5 per cent less than 3.1.)

### Percentage Change in Share of Total Income Tax Revenues, 1999

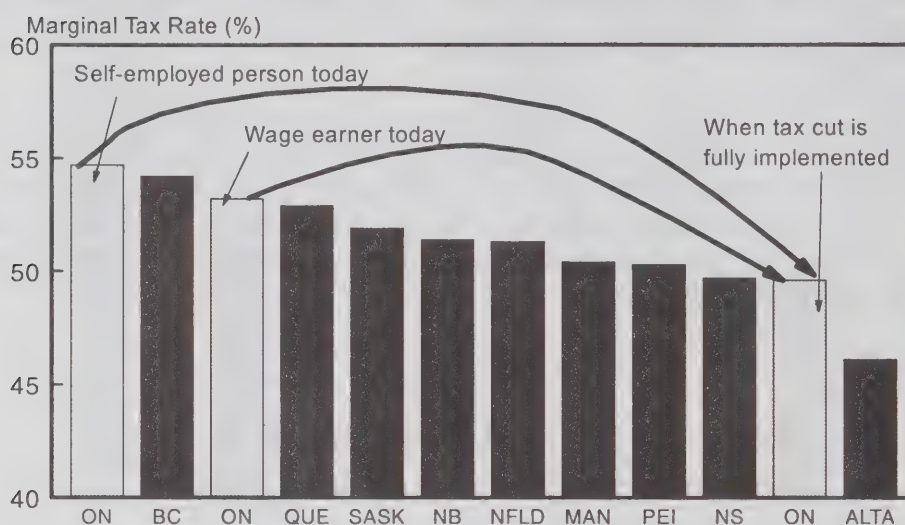


## 2nd Lowest Top Marginal Personal Income Tax Rate in 1999

Changes to Ontario's income tax will make Ontario's top tax rate more competitive with those of other provinces. That means that more entrepreneurs and more people with specialized skills will choose to locate in Ontario.

- ◆ Currently, the top marginal tax rate is highest for entrepreneurs, because of the application of the Employer Health Tax on self-employment income, which is being phased out. No other province imposes such a tax.
- ◆ When the tax cut is fully implemented, Ontario's top marginal tax rate will be second lowest among the provinces, including entrepreneurs.

### Top Marginal Personal Income Tax Rates



Combined federal and provincial personal income taxes.  
Other provinces' rates reflect commitments up to April 30, 1996.

## Cutting the Employer Health Tax

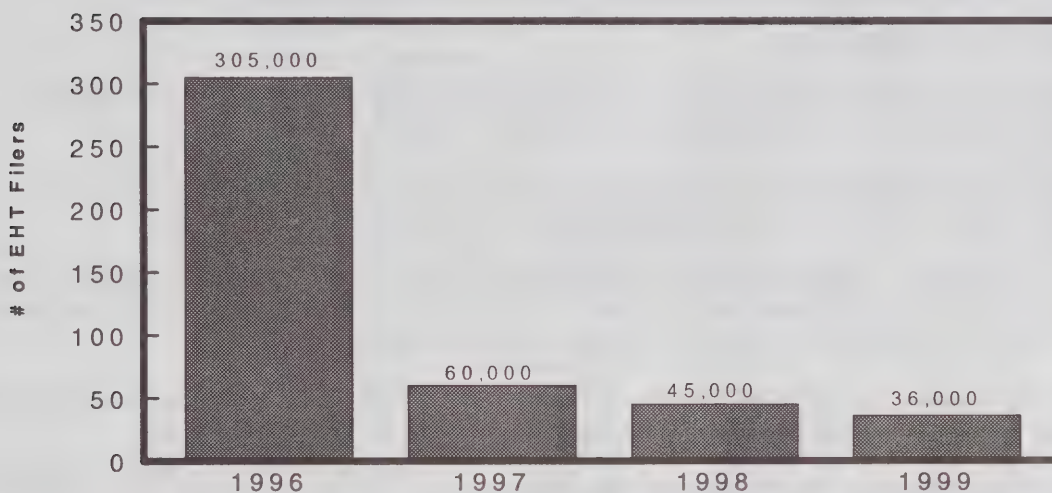
Beginning in 1999, the first \$400,000 of an employer's Ontario payroll will be exempt from this tax. The exemption will be phased in over three years, as follows:

- ◆ For 1997, the first \$200,000 of payroll will be exempt from tax.
- ◆ For 1998, the first \$300,000 of payroll will be exempt from tax.
- ◆ For 1999 and later years, the first \$400,000 of payroll will be exempt from tax.

This exemption will help small businesses create jobs. It will reduce the marginal ongoing payroll tax cost of hiring one new employee by as much as four per cent for a small business.

This exemption will also significantly reduce the paperwork burden on small employers. By 1999, 270,000 or 88 per cent of private-sector employers will no longer have to file a payroll tax return.

**Private-Sector Employers Required to Pay  
the Employer Health Tax**



# DETAILS OF CHANGES TO THE INCOME TAX ACT AND THE EMPLOYER HEALTH TAX ACT

The following sections provide further information on the personal income tax cut and the employer health tax cut. For precise information, the reader is advised to consult the amending legislation.

## Income Tax Act

### Tax Rate Reduction

- ◆ For the 1996 taxation year, the Ontario income tax rate will be reduced to 56 per cent of Basic Federal Tax from 58 per cent of Basic Federal Tax.
  - From July 1, 1996 to December 31, 1996, tax will be withheld at source at the rate of 54 per cent of Basic Federal Tax.
- ◆ Effective January 1, 1997, the Ontario income tax rate will fall to 49 per cent of Basic Federal Tax.
- ◆ When the tax cut is fully phased in, the Ontario income tax rate will be 40.5 per cent of Basic Federal Tax.

### Fair Share Health Care Levy

- ◆ The Fair Share Health Care Levy (FSHCL) will be incorporated into the existing surtax on Ontario income tax. The entire surtax will be the FSHCL.
- ◆ For the 1996 taxation year, the FSHCL will equal 20 per cent of Ontario income tax in excess of \$5,310 plus 13 per cent of Ontario income tax in excess of \$7,635.
  - From July 1, 1996 to December 31, 1996, the FSHCL will be calculated as 20 per cent of Ontario income tax in excess of \$5,120 plus 16 per cent of Ontario income tax in excess of \$7,270 for purposes of tax withholdings at source.
- ◆ Effective January 1, 1997, the FSHCL will equal 20 per cent of Ontario income tax in excess of \$4,650 plus 24 per cent of Ontario income tax in excess of \$6,360.
- ◆ When fully phased in, the FSHCL will equal 20 per cent of Ontario income tax in excess of \$3,845 plus 36 per cent of Ontario income tax in excess of \$4,800.

### Ontario Tax Reduction

- ◆ Concurrent with the phase in of the income tax rate cut and the introduction of the Fair Share Health Care Levy, the Ontario Tax Reduction program is being changed to benefit more lower-income taxpayers.
- ◆ For the 1996 taxation year, the basic reduction will be \$198 and the amount in respect of each dependent child age 18 or under and each disabled dependant will be \$382.
  - From July 1, 1996 to December 31, 1996, the basic reduction will be \$191 and the amount in respect of each dependent child age 18 or under and each disabled dependant will be \$369 for purposes of tax withholdings at source.

- ◆ Effective January 1, 1997:
  - Reflecting the fall in the income tax rate to 49 per cent the basic reduction will be \$174 and the amount in respect of each dependent child age 18 or under and each disabled dependant will be \$335; and
  - The formula for calculating the tax reduction will be set at twice the individual's personal amount (i.e., the sum of the basic reduction and the amounts claimed in respect of eligible children and disabled dependants) minus Ontario income tax.
- ◆ When the adjustments are fully implemented the basic reduction will be \$145 and the amount in respect of each dependent child age 18 or under and each disabled dependant will be \$280.

### **Concordance with the Income Tax Act (Canada)**

- ◆ The Income Tax Act will be amended to conform with changes to the Income Tax Act (Canada).
- ◆ Other minor administrative adjustments will also be introduced.

**All enquiries regarding personal income tax changes should be directed to:**  
**Taxation Policy Branch**  
**Ministry of Finance**  
**5th Floor, Frost Building South**  
**7 Queen's Park Crescent East**  
**Toronto, Ontario**  
**M7A 1Y7**  
**English: 1-888-562-4769 (or 1-888-JOB-GROW)**  
**French: 1-888-562-4769 (or 1-888-JOB-GROW)**  
**Teletypewriter (TTY): 1-800-263-7776**

## **Employer Health Tax Act**

### **Employer Health Tax Exemption**

- ◆ Beginning January 1, 1999, employers will be exempt from tax on the first \$400,000 of Ontario payroll. The exemption will be phased in over three years as follows:
  - For 1997, the first \$200,000 of payroll will be exempt from tax;
  - For 1998, the first \$300,000 of payroll will be exempt from tax;
  - For 1999 and subsequent years, the first \$400,000 of payroll will be exempt from tax.

#### *Tax Rate*

- ◆ The tax rate applicable to the payroll for the year will be the tax rate that would otherwise apply before deducting the exemption for the year.

#### *Tax Instalments*

- ◆ An employer will not be required to remit tax instalments until the cumulative payroll for the year exceeds the employer's exempt amount for the year.
- ◆ Once the exempt amount has been reached, the determination of whether tax instalments must be remitted monthly or quarterly will continue to be based on the employer's total payroll for the year.
- ◆ The amount of the tax instalment payable will continue to be based on the payroll in the previous month or quarter, as applicable.

### *Associated Employers*

- ◆ The exemption amount for the year must be shared among associated employers.
- ◆ All employers in an associated group must enter into an agreement allocating the exemption for the year. The agreement must be filed by March 15 of the following year with the annual return.
- ◆ If an associated employer does not enter into the allocation agreement for the year, all of the employers in that associated group will be denied the exemption for that year.

### *Part-Year Employers*

- ◆ Where an employer opens or closes a business during the year, the exemption will be prorated by the number of days in the calendar year that the business is in operation.

### *Exclusions*

- ◆ Employers currently excluded from the one-year tax holiday on increases in payroll will not be eligible for the exemption. These employers include:
  - Public sector employers, including federal, provincial and municipal governments, universities, colleges, school boards and hospitals; and
  - Certain persons exempt from income tax under subsection 149(1) of the Income Tax Act (Canada), such as municipal and provincial corporations and trusts.

## **Tax Holiday**

- ◆ Effective for 1997 and subsequent years, the one-year tax holiday on increases in payroll will be eliminated.

## **Self-Employed Individuals**

- ◆ Self-employed individuals currently pay Employer Health Tax on net self-employment income in excess of \$40,000. The tax rate ranges from .98 per cent on net self-employment income under \$200,000 to 1.95 per cent on net self-employment income over \$400,000, before deducting the \$40,000 exemption. A tax credit equal to 22 per cent of the tax payable is provided to compensate for the non-deductibility of the tax for income tax purposes.
- ◆ Effective for 1999 and subsequent years, the Employer Health Tax on self-employment income will be eliminated.
- ◆ The existing \$40,000 exemption will be increased to \$200,000 for 1997 and to \$300,000

for 1998 to conform with the exemption for employers.

- ◆ For 1997 and 1998, the tax rate on self-employment income in excess of the exemption will be 1.95 per cent.
- ◆ The 22 per cent tax credit provided to compensate for the non-deductibility of the self-employed health tax for income tax purposes will be maintained for 1997 and 1998.

### **Other Amendments**

- ◆ Employers will be required to include in total Ontario remuneration certain amounts paid to or deemed to have been received by former employees:
  - Effective May 8, 1996, employers will be required to include in total Ontario remuneration the amount of bonuses and other lump-sum payments made in the year to former employees; and
  - Effective 1997, employers will be required to include in total Ontario remuneration the amount of stock options benefits received in the year by former employees in respect of shares of the employer or shares of a corporation with which the employer does not deal at arm's length.
- ◆ Effective May 8, 1996, trustees in bankruptcy will be required to notify the Ministry of Finance of their appointment within 10 days thereof, and the bankrupt employer will be required to file a pre-bankruptcy return for the year and any outstanding return for the previous year within 40 days of the date of bankruptcy.

**All enquiries regarding employer health tax changes should be directed to:**

**Employer Health Tax Branch**

**Ministry of Finance**

**P. O. Box 627**

**33 King Street West**

**Oshawa, Ontario**

**L1H 8H5**

**English: 1-888-562-4769 (or 1-888-JOB-GROW)**

**French: 1-888-562-4769 (or 1-888-JOB-GROW)**

**Teletypewriter (TTY): 1-800-263-7776**

## DETAILS OF CHANGES TO OTHER STATUTES

The following sections provide further information on changes to labour sponsored investment funds, race tracks tax, retail sales tax, tobacco tax, land transfer tax and corporations tax. For precise information, the reader is advised to consult the amending legislation.

### Labour Sponsored Venture Capital Corporations Act

#### Concordance with the Income Tax Act (Canada)

- ◆ The provisions relating to labour sponsored investment fund corporations (LSIFs) will be amended to harmonize with the proposed 1996 federal budget changes for labour sponsored venture capital corporations with respect to the following:
  - The tax credit will be reduced from 20 per cent to 15 per cent of the cost of LSIF shares acquired after May 6, 1996;
  - The maximum annual investment eligible for a tax credit will be reduced from \$5,000 to \$3,500 for shares acquired after May 6, 1996;
  - For shares acquired after May 6, 1996, the articles of Ontario registered LSIF corporations must be amended before 1997 to restrict the registration of share transfers and to increase the minimum holding period from five to eight years, including where individuals retire, reach age 65 or cease to be residents of Canada; and
  - An individual redeeming a share after May 6, 1996 may not claim an LSIF tax credit for the taxation year in which the redemption occurs and the following two taxation years, unless the tax credit in respect of the redeemed share is repaid.

#### Investment Requirements

- ◆ For capital raised prior to May 7, 1996, the following rules apply:
  - At least 70 per cent of the capital raised must be invested in eligible investments by the earlier of the former time limits or December 31, 1997;
  - No more than 51 per cent of the capital required to be invested may be invested in reporting issuers (as defined in the *Securities Act*) at the time of investment; and
  - At least 10 per cent of the capital required to be invested must be invested in small businesses (less than \$5 million in assets and 50 employees).

- ◆ For capital raised after May 6, 1996, the following rules apply:
  - At least 50 per cent of the capital raised after May 6, 1996 and during the first 60 days of 1997 must be invested in eligible investments by December 31, 1997, and at least 70 per cent of the capital must be invested in eligible investments by December 31, 1998;
  - For calendar years after 1997, at least 50 per cent of the capital raised during the first 60 days of the year and after the first 60 days of the preceding year, must be invested in eligible investments by December 31 of the year and at least 70 per cent of the capital must be invested in eligible investments by December 31 of the following year;
  - No more than 15 per cent of the capital required to be invested in each period can be invested in reporting issuers (as defined in the *Securities Act*) at the time of investment; and
  - At least 10 per cent of the capital required to be invested in each period must be invested in small businesses (less than \$5 million in assets and 50 employees).
- ◆ Failure to meet these investment requirements will result in the suspension of Ontario tax credit certificates being issued until the Minister is satisfied the LSIF is in compliance with the investment requirements.
- ◆ The new requirement for investment in small businesses will replace the existing requirement for LSIFs to invest in small businesses where investments are held in large businesses.

**All enquiries regarding the labour sponsored venture capital corporation changes should be directed to:**

**Tax Credits and Grants Branch  
Ministry of Finance  
P. O. Box 624  
33 King Street West  
Oshawa, Ontario  
L1H 8H8**

**English: 1-888-562-4769 (or 1-888-JOB-GROW)**

**French: 1-888-562-4769 (or 1-888-JOB-GROW)**

**Teletypewriter (TTY): 1-800-263-7776**

# Race Tracks Tax Act

## Tax Rate

- ◆ Effective upon proclamation, the tax rate on all wagers is reduced to 0.5 per cent from 9 per cent on triactor bets and from 7 per cent on all other bets.

**All enquiries regarding the race tracks tax changes should be directed to:**

**Retail Sales Tax Branch**

**Ministry of Finance**

**P. O. Box 623**

**33 King Street West**

**Oshawa, Ontario**

**L1H 8H7**

**English: 1-888-562-4769 (or 1-888-JOB-GROW)**

**French: 1-888-562-4769 (or 1-888-JOB-GROW)**

**Teletypewriter (TTY): 1-800-263-7776**

## Retail Sales Tax Act

### 1-800 and 1-888 Toll-Free Telephone Services

- ◆ 1-800 and 1-888 toll-free telephone services purchased by subscribers, other than residential subscribers, are exempt from retail sales tax effective July 1, 1996.

### Temporary Rebate on Building Materials for Farmers

Persons engaged in the business of farming may apply for a retail sales tax rebate on building materials purchased between May 8, 1996 and March 31, 1997 and used to construct or modernize a qualifying building or structure.

#### *Qualifying Buildings*

- ◆ Qualifying buildings are buildings used exclusively for farm use, such as barns, greenhouses, silos or similar structures.

**All enquiries regarding the retail sales tax changes should be directed to:**

**Retail Sales Tax Branch**

**Ministry of Finance**

**P. O. Box 623**

**33 King Street West**

**Oshawa, Ontario**

**L1H 8H7**

**English: 1-888-562-4769 (or 1-888-JOB-GROW)**

**French: 1-888-562-4769 (or 1-888-JOB-GROW)**

**Teletypewriter (TTY): 1-800-263-7776**

# **Tobacco Tax Act**

## **Change to Method of Calculating Tobacco Tax**

Effective May 8, 1996, Ontario's tobacco tax will be calculated as a base tax plus a harmonized federal-provincial tax.

### *Calculation of Tax*

The base tax is 24 per cent of the average retail price per pack of 25 cigarettes (net of RST, GST, Ontario tobacco tax and federal tobacco levies), converted to a per cigarette price, and rounded to the nearest one tenth of a cent. Until the average retail price and the resulting per cigarette base tax are regulated, the base tax rate will remain at 1.7 cents per cigarette, per tobacco stick and per gram or part gram of cut tobacco.

The harmonized federal-provincial tax is 100% of any future changes in federal excise tax and federal excise duty for cigarettes, all converted to a per cigarette basis and rounded to the nearest one tenth of a cent.

### *Application of Tax*

The per cigarette tax as calculated above applies to each cigarette, tobacco stick, gram or part gram of cut tobacco purchased in Ontario.

To ensure consistency, wholesalers will receive written notification from the Motor Fuels and Tobacco Tax Branch of the Ministry of Finance whenever there is a change in Ontario's tobacco tax.

**All enquiries regarding the tobacco tax changes should be directed to:**

**Motor Fuels and Tobacco Tax Branch  
Ministry of Finance  
P. O. Box 625  
33 King Street West  
Oshawa, Ontario  
L1H 8H9**

**English: 1-888-562-4769 (or 1-888-JOB-GROW)**

**French: 1-888-562-4769 (or 1-888-JOB-GROW)**

**Teletypewriter (TTY): 1-800-263-7776**

# **Land Transfer Tax Act**

## **Refund on Purchases of Newly Constructed Homes by First-time Home Buyers**

Effective for registered and unregistered conveyances that occur after May 7, 1996, first-time home buyers will be eligible to receive a refund of land transfer tax paid on the purchase of newly constructed homes. The refund will be available for agreements of purchase and sale executed on or before March 31, 1997 with registered and unregistered conveyances that occur on or before June 30, 1997.

### *Amount of Refund*

- ◆ The refund will be the entire amount of tax paid or payable up to a maximum of \$1,725.

### *First-Time Home Buyers*

- ◆ A first-time home buyer is an individual, at least 18 years of age, who has never owned a home anywhere in the world and whose spouse has not owned a home anywhere in the world while he or she was a spouse of the individual.
- ◆ An additional requirement is that the newly constructed home be used as the principal residence by the first-time home buyer.

### *Newly Constructed Home*

- ◆ A newly constructed home is one that qualifies for the Ontario New Home Warranties Plan and that is sold by a vendor as defined in the *Ontario New Home Warranties Plan Act*.

### **Electronic Registration of Deeds**

- ◆ The Land Transfer Tax Act (LTTA) will be amended to facilitate electronic registration of deeds. Sections of the LTTA dealing with imposing, collecting and recording liability will be amended. This change is effective June 1, 1996.

**All enquiries regarding the land transfer tax changes should be directed to:**

**Motor Fuels and Tobacco Tax Branch**

**Ministry of Finance**

**P. O. Box 625**

**33 King Street West**

**Oshawa, Ontario**

**L1H 8H9**

**English: 1-888-562-4769 (or 1-888-JOB-GROW)**

**French: 1-888-562-4769 (or 1-888-JOB-GROW)**

**Teletypewriter (TTY): 1-800-263-7776**

## **Corporations Tax Act**

### **Ontario Film and Television Tax Credit**

To harmonize with federal changes to film tax incentives, Ontario will provide a refundable film and television tax credit for eligible Ontario-based productions. The credit will generally be at a rate of 15 per cent of qualifying labour expenditures incurred after June 30, 1996, with first-time productions eligible for a 30 per cent rate. Qualifying labour expenditures cannot exceed 48 per cent of the cost of the production.

### *Eligible Ontario Production*

- ◆ An eligible Ontario production is a film or television production that is a "Canadian film or video production" for purposes of the federal Canadian film or video production tax credit in proposed section 125.4 of the *Income Tax Act* (Canada) and proposed *Regulations*

thereto, provided that:

- the Ontario Minister of Citizenship, Culture and Recreation will be responsible for certifying an eligible production for Ontario purposes,
- the production must be allotted not less than eight points in accordance with the proposed federal *Regulations*,
- the individual who is the producer must be an Ontario producer,
- at least 75 per cent of all production costs must be Ontario costs,
- the following types of productions will also be excluded:
  - magazine format programming
  - variety shows
  - educational or instructional programming
  - programming not shown in prime time
  - service productions
  - productions where the initial broadcast is shown by a Canadian broadcaster that is associated with the qualifying production company,
- the production must be shown in Ontario by an Ontario-based theatrical film distributor or a Canadian broadcaster within two years, and
- all principal photography and post-production must occur in Ontario with the exception of treaty co-production where either principal photography or post-production must occur in Ontario and with the exception of documentary productions where principal photography may occur outside Ontario.

#### *Qualifying Production Company*

- ◆ A qualifying production company will be an Ontario-based corporation that meets the proposed definition of qualified corporation for purposes of the federal Canadian film or video production tax credit, except that the reference to “exempt from tax” will include a reference to exempt from taxation under the *Corporations Tax Act*.

#### *Qualifying Labour Expenditures*

- ◆ The computation of qualifying labour expenditures will harmonize with the federal method used in the definitions “qualified labour expenditure” and “labour expenditure” in proposed section 125.4 of the *Income Tax Act* (Canada), except that the expenditures will be restricted to salaries, wages and remuneration incurred after June 30, 1996 and payable to individuals in Ontario.
- ◆ Qualifying labour expenditures will not be reduced by the Canadian film or video production tax credit.

#### *Tax Credit Calculation*

- ◆ Except for first-time productions, the rate for the Ontario film and television tax credit will

be 15 per cent of qualifying labour expenditures.

- ◆ For first-time productions, the Ontario film and television tax credit will be the greater of:
  - (i) \$15,000, or
  - (ii) 30 per cent of the first \$240,000 of qualifying labour expenditures plus 15 per cent of any qualifying labour expenditures in excess of that amount.
- ◆ The Ontario film and television tax credit otherwise available will be limited to:
  - a maximum per production of \$1.5 million for an eligible television series production and \$500,000 for all other eligible Ontario productions; and
  - a maximum of \$2 million per corporation or associated group for all productions commenced in a year.

#### *First-Time Productions*

- ◆ A first-time production is:
  - (i) a feature film,
  - (ii) a documentary, or
  - (iii) a stand-alone television production suitable for a minimum 30 minute time slot,where a producer has no more than one previous screen credit in a commercial production and has not participated as a producer in a production that previously earned an Ontario film and television tax credit.

#### *Administration*

- ◆ A certificate of eligibility must be obtained from the Ontario Film Development Corporation, by filing the necessary information after June 30, 1996.
- ◆ A corporation or associated group will not be issued certificates of eligibility exceeding \$2 million in respect of all projects starting in a year for purposes of the Ontario film and television tax credit.
- ◆ The certificate(s) of eligibility must be filed with the corporation's provincial income tax return when the credit is claimed.

#### *Refunds*

- ◆ The credit will be applied against outstanding Ontario tax liabilities and any excess will be refundable, subject to the corporate minimum tax.
- ◆ The Ontario film and television tax credit is assignable.

#### *Effective Dates*

- ◆ This measure will be effective for qualifying expenditures incurred after June 30, 1996 in respect of productions where the principal photography commenced after May 7, 1996.

## **Temporary Capital Tax Surcharge on Banks**

Effective May 8, 1996, Ontario will harmonize with the federal measure to impose a temporary surcharge on the capital tax of large banks.

- ◆ The surcharge will be levied at a rate of 10 per cent on the capital tax of a bank's taxable capital over \$400 million, multiplied by the Ontario allocation.
- ◆ The surcharge will be in effect from May 8, 1996 until October 31, 1997. For taxation years that include May 8, 1996, the tax will be prorated on the basis of the number of days in the taxation year after May 7, 1996.
- ◆ A bank's capital tax liability, up to the cumulative amount of the surcharge, may be reduced by the Bank Small Business Investment Tax Credit.

## **Bank Small Business Investment Tax Credit**

Effective for eligible investments after May 7, 1996, Ontario will provide a 10 per cent capital tax credit for banks that make eligible patient capital investments in Ontario small businesses. This credit may be applied to reduce a bank's capital tax liability, up to the total amount of the bank's additional temporary capital tax surcharge.

### *Eligible Investments*

- ◆ Eligible investments in a taxation year are patient capital investments, which are issued in that taxation year to a bank or its specialized financing corporation by a qualifying small business.
  - Patient capital investments are certain investments subject to specified minimum holding requirements and restrictions on retraction.
- ◆ Investments issued to a bank's specialized financing corporation will qualify for the credit to the extent of the bank's investment in the specialized financing corporation.
- ◆ Generally, a qualifying small business is a corporation that:
  - carries on business through a permanent establishment in Ontario,
  - is a Canadian-controlled private corporation, the assets of which are used principally in an active business carried on primarily in Ontario, and
  - immediately prior to the time of the investment, neither the assets nor revenues of the corporation and all associated corporations exceed \$5 million.

### *Restrictions on Conversions and Dispositions*

- ◆ Subject to certain limitations, existing investments, other than existing patient capital investments, can be converted into eligible investments.
- ◆ Generally, where an existing investment is converted into an eligible investment in the year, the value of the eligible investment for purposes of the credit will be the fair market value of the existing investment immediately before conversion.
- ◆ Special rules will apply to the dispositions of existing patient capital investments and eligible investments. These rules will restrict the amount of credits otherwise available.

### *Tax Credit*

- ◆ Where the assets and revenues of a qualifying small business and all associated corporations are less than \$1 million, the tax credit will be calculated at the rate of 10 per cent of the value of the eligible investment.
- ◆ The credit will be phased-out on a proportionate basis as assets or revenues of the qualifying small business and all associated corporations increase from \$1 million to \$5 million.
- ◆ Tax credits can be claimed in the year they are earned or any subsequent year against a bank's capital tax liability. The maximum credit that can be claimed in any particular year is an amount up to the temporary surcharge paid in the year or a prior year, less any credits previously claimed. The maximum credits that can be claimed for all years will be the total amount of the temporary capital tax surcharge paid in 1996 and 1997.

### *Effective Date*

- ◆ This measure will be effective for eligible investments made after May 7, 1996 and before January 1, 2000.

### **Co-operative Education Tax Credit**

Effective September 1, 1996, Ontario will provide a refundable tax credit to Ontario corporations equal to 10 per cent of eligible expenditures incurred in providing qualifying co-op work placements for co-op students. The tax credit will be capped at \$1,000 per student for each co-op work placement.

### *Qualifying Co-op Work Placement*

- ◆ The placement must be a co-op work term that counts for credits towards completion of a post-secondary co-op education program offered by a provincially (Ontario) assisted post-secondary institution (a provincially assisted university, a College of Applied Arts and Technology, or an agricultural college).
- ◆ The definition of a co-op education program for purposes of this tax credit will be based on the Canadian Association for Co-operative Education's definition of co-operative education program.

### *Eligible Expenditures*

- ◆ Eligible expenditures are salaries, wages, and other remuneration paid by the Ontario corporation to a student in respect of a qualifying co-op work placement and/or payments by the Ontario corporation to a university or college in respect of a qualifying co-op work placement.

### *Ontario Corporation*

- ◆ An Ontario corporation will be a corporation that has a permanent establishment in Ontario, other than a corporation exempt from tax under the *Corporations Tax Act*.

### *Tax Credit*

- ◆ Corporations will receive a refundable tax credit equal to 10 per cent of eligible expenditures in respect of a qualifying co-op work placement up to a maximum of \$1,000 per student for each co-op work placement.
- ◆ The credit will be available to a corporation in the taxation year in which the qualifying co-op work placement ends.
- ◆ The credit will be applied against outstanding Ontario tax liabilities and any excess will be refundable, subject to the corporate minimum tax.

### *Administration*

- ◆ The college or university must certify that the placement is a qualifying co-op work placement.

### *Effective Date*

- ◆ The credit will apply to placements commencing after August 31, 1996.

### **Concordance with Federal Budget Changes**

- ◆ The *Corporations Tax Act* will harmonize with federal *Income Tax Act* changes and effective dates announced in the 1995 and 1996 federal budgets that pertain to the determination of taxable income for corporations. These include:
  - resource allowance calculation;
  - accelerated depreciation for new and expanded mines;
  - deemed capital cost rules for certain expenditures;
  - flow-through share rules;
  - rules for scientific research and experimental development;
  - income tax treatment of life insurers;
  - elimination of accelerated capital cost allowance for Canadian certified productions;

- elimination of joint exploration corporations;
- rules in respect of specified energy properties and renewable energy expenditures;
- increased charitable donation limit; and
- donations of ecologically sensitive land.

**All enquiries regarding the corporations tax changes should be directed to:**

**Corporations Tax Branch**

**Ministry of Finance**

**P. O. Box 622**

**33 King Street West**

**Oshawa, Ontario**

**L1H 8H7**

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**Teletypewriter (TTY): 1-800-263-7776**

## **Interest on Unpaid Taxes and Refunds: Harmonization with Revenue Canada**

Ontario will harmonize with the base used by the federal government for the setting of interest rates with respect to taxes (Government of Canada treasury bill yields). This change will affect the rate charged on overpayments and underpayments of tax.

Ontario will increase the rate charged on unpaid tax and instalments under all statutes. The new rates will be in line with those charged by Revenue Canada.

To compensate for certain differences between provincial and federal statutes, such as the payment of interest on instalments and the treatment of refunds, the Ontario rates used for some overpayments may be less than the comparable federal rates.

Other penalty and interest provisions, such as the instalment interest offset and deficient instalment penalty under the *Income Tax Act* (Canada), will be adopted where appropriate.

The interest base and rate changes will be effective January 1, 1997. Other changes will be implemented by March 31, 1997 as computer systems are adjusted to accommodate them.

**For enquiries with respect to this measure please call:**

**English: 1-888-562-4769 (or 1-888-JOB-GROW)**

**French: 1-888-562-4769 (or 1-888-JOB-GROW)**

**Teletypewriter (TTY): 1-800-263-7776**

## Technical Amendments

To improve administrative effectiveness and efficiency and maintain the integrity of the tax system various technical amendments will be made to the following acts:

- *Retail Sales Tax Act*
- *Tobacco Tax Act*
- *Land Transfer Tax Act*
- *Corporations Tax Act*
- *Mining Tax Act*

As well, changes will be made to the *Corporations Tax Act* to harmonize with amendments enacted in several federal technical bills.

**Revenue Changes:  
1996 Budget Impact Summary  
(\$ million)**

**Table 1**

	1996-97	Full Year
<b>Personal Income Tax</b>		
Rate Reduction	(1,175)	(4,815)*
Fair Share Health Care Levy	90	260*
<b>Employer Health Tax</b>		
Employer Health Tax Exemption	(60)	(260)*
Self-Employed Individuals	(5)	(30)*
<b>Labour Sponsored Venture Capital Corporations</b>		
Concordance with the Income Tax Act (Canada)	105	100
<b>Race Tracks Tax</b>		
Tax Rate Reduction	(65)	(85)
<b>Retail Sales Tax</b>		
1-800 and 1-888 Toll Free Telephone Services	(15)	(25)
Temporary Rebate on Building Materials for Farmers	(20)	(20)
<b>Tobacco Tax</b>		
Change to Method of Calculating Tobacco Tax	0	0
<b>Land Transfer Tax</b>		
Refund on Purchases of Newly Constructed Homes by First-Time Home Buyers	(30)	(40)
<b>Corporations Tax</b>		
Retargeted Film Incentive	0	(5)
Bank Surtax--Small Business Credit	10	0
Co-operative Education Tax Credit	(5)	(15)
Concordance with Federal Budget Changes	(1)	(5)
<b>Total Revenue Changes</b>	<b>(1,171)</b>	<b>(4,940)</b>

\* Reflects full implementation

***Ontario's Economy***  
***Jobs and Growth***

## THE ONTARIO ECONOMY

Ontario Economy at a Glance (Per Cent)				
	1995	1996	1997	1998
Real GDP Growth	2.5	1.9	2.8	3.0
CPI Inflation	2.4	1.4	1.6	1.8
Job Growth	1.4	1.5	1.9	2.0
Source: Ontario Ministry of Finance projections				

# ONTARIO ECONOMY 1996-1998

## Highlights

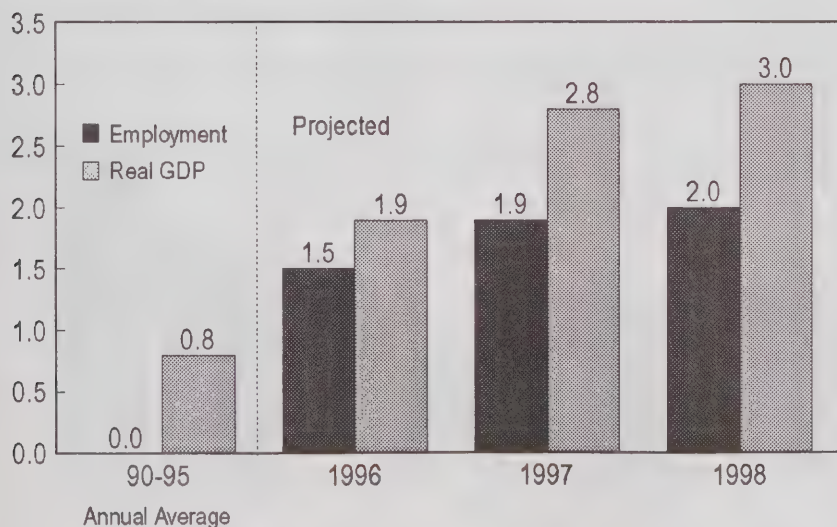
To ensure that the deficit and other fiscal targets set out in this Budget are realistic and achievable, prudent assumptions have been used to develop a cautious economic forecast. Ontario's real Gross Domestic Product (GDP) is projected to grow by 1.9 per cent in 1996, 2.8 per cent in 1997 and 3.0 per cent in 1998.

- ◆ Consumer spending will strengthen as income tax cuts boost consumer confidence and put money back into the pockets of the people of Ontario.
- ◆ Small business is expected to create the lion's share of new jobs, spurred by income tax cuts, the elimination of the Employer Health payroll tax on the first \$400,000 of payroll, and a much improved business climate.
- ◆ The housing market is reviving with improved affordability and renewed confidence.
- ◆ Export-oriented sectors will continue to lead growth, reflecting Ontario's improved competitive position.
- ◆ Investment spending, particularly for machinery and equipment, will remain strong as firms reinvest profits to improve their global competitiveness.

***Steady, solid  
growth  
projected***

## Steady, Solid Growth

Per cent growth



Sources: Statistics Canada and Ontario Ministry of Finance

***Private  
sector has  
created  
nearly four  
new jobs for  
every job lost  
in the public  
sector***

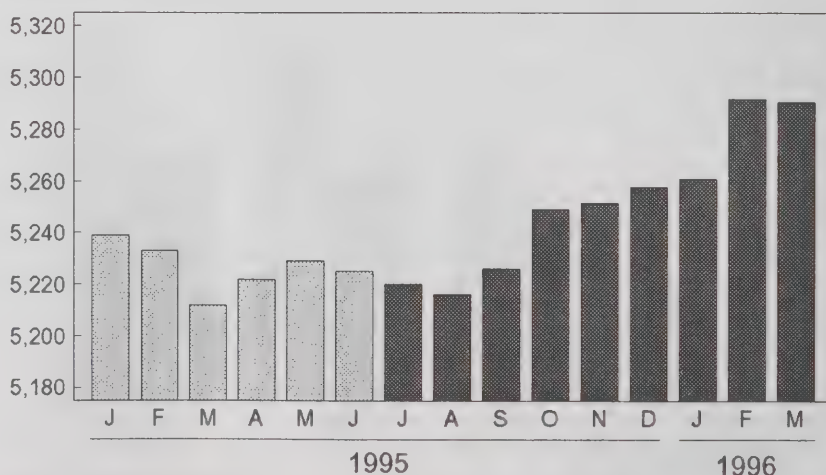
## More Growth and Jobs

Ontario's economy is beginning to reflect a renewed level of confidence. Ontario's economy rebounded sharply in the second half of 1995, with real GDP up 5.0 per cent in the third quarter, and 2.7 per cent in the fourth quarter of 1995. GDP growth in the second half of 1995 was more than three times the growth in Canada. Recent data show continued economic growth in Ontario in 1996.

- ◆ Between June 1995 and March 1996, the private sector created 90,000 jobs. In other words, the private sector has created nearly four new jobs for every job lost in the public sector.
- ◆ Ontario consumer confidence rose 3.1 per cent in the first quarter of 1996. Toronto-area home sales rose 70 per cent in March from last year's low level.
- ◆ Ontario's merchandise exports were up 3.8 per cent in January and February from a year ago, despite temporary auto plant closures for inventory correction. Machinery and equipment export sales accounted for most of the gain, increasing by 8.0 per cent.
- ◆ Canadian business confidence rose 1.7 per cent in the first quarter of 1996. According to the Conference Board business confidence survey, 53.9 per cent of Canadian businesses consider Ontario the best province in which to invest.

## Job Creation Accelerating

Employment, thousands



Source: Statistics Canada.

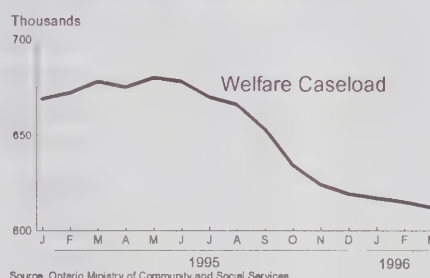
## A Framework for Economic Growth

Cutting taxes, balancing the budget and making government more efficient and effective will restore consumer and business confidence and pave the way for further private-sector job creation.

- ◆ Lower personal income taxes will encourage more investment and job creation, especially in Ontario's small business sector. A survey from the Canadian Federation of Independent Business found that the tax cut is key to increased hiring. When the tax cut is fully implemented, Ontario's top marginal personal income tax rate will be the second lowest in Canada. Budget Paper D discusses the link between tax cuts and job creation.
- ◆ Freezing the minimum wage, exempting the first \$400,000 of payroll from the Employer Health payroll tax and reducing workers' compensation premiums will cut mandatory payroll costs and create jobs.
- ◆ Reform of the social assistance system is helping people break the cycle of dependency, leading to more jobs and higher levels of income. The number of people on social assistance declined by 129,700 between June 1995 and March 1996, or 9.6 per cent. The welfare caseload dropped by 9.8 per cent during this period.
- ◆ With 90,000 new jobs created in the private sector from June to March, Ontarians who had stopped looking for work are resuming their job search. As a result, the participation rate has risen 0.7 percentage points since September 1995.

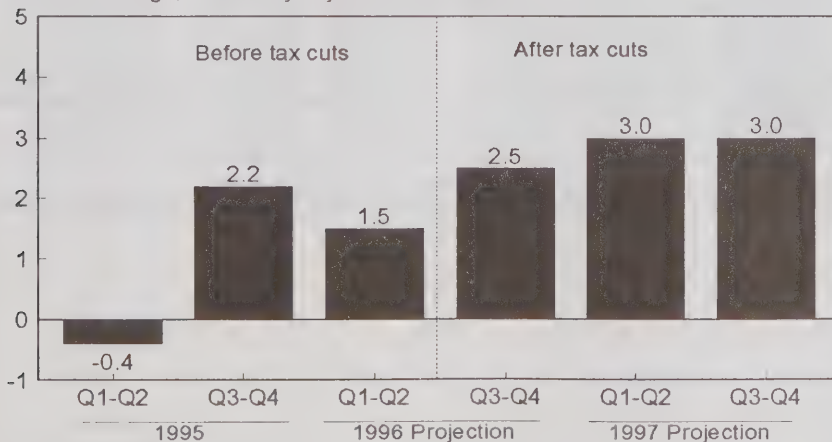
***Tax cuts  
create jobs  
and spur  
growth***

Breaking the Cycle of Dependency



## Tax Cuts Will Spur Economic Growth

Real GDP Growth  
Per cent change, seasonally adjusted at annual rates



***Low interest rates reflect low inflation and declining government deficits***

## Interest Rates, Inflation and the Dollar

Declining government deficits and low inflation are leading to lower interest rates. Ontario's economy has contributed significantly to Canada's strong trade performance and this, coupled with low inflation, has allowed the dollar to strengthen.

- ◆ During the spring, short-term interest rates fell below U.S. rates. This was the first time that Canadian rates have been below U.S. rates on a sustained basis in more than a decade. However, to be prudent, the economic forecast included in this Budget assumes average Canadian short-term rates will be above U.S. rates.
- ◆ As investors become more confident in Canada's ability to maintain low inflation and in the durability of Canada's dramatically improved fiscal position, long-term interest rates should fall. However, to reflect prudence, both short- and long-term interest rates are assumed to be significantly higher than expected by the average private-sector forecast through the remainder of 1996 and all of 1997.
- ◆ Inflation in Ontario is projected to remain low, falling from 2.4 per cent in 1995 to 1.4 per cent in 1996 and averaging 1.7 per cent over the 1997 to 1998 period.
- ◆ Continued improvement in Canada's current account balance combined with low inflation should support a stronger dollar over the medium term.

### Cautious Interest Rate Assumptions (per cent)

	1995a	1996	1997
<b>3-month Canadian treasury bill rate</b>			
Private-sector survey average	6.9	5.0	5.7
Ontario's prudent assumption	6.9	5.6	6.4
<b>10-year government of Canada bond rate</b>			
Private-sector survey average	8.1	7.6	7.7
Ontario's prudent assumption	8.1	8.2	8.6

a=actual

Sources: Bank of Canada, Ontario Ministry of Finance Survey of Financial Market Dealers April 30, and Ontario Ministry of Finance

## Stronger Growth in Key Trading Partners

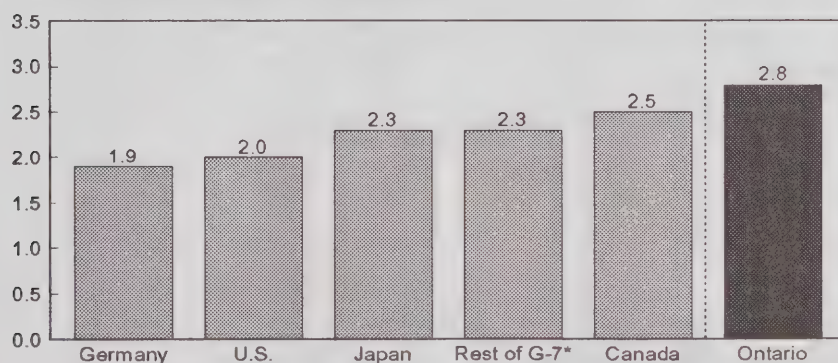
Continued economic growth in the United States and Ontario's strong competitive position support export growth. Ongoing growth in the rest of the G-7 will create a larger export market for Ontario goods and services.

- ◆ The United States is Ontario's most important export market, accounting for about 90 per cent of international exports. The average private-sector forecast for U.S. economic growth is 1.9 per cent in 1996, 2.1 per cent in 1997 and 1.9 per cent in 1998. Although the U.S. economy is currently near full capacity, this modest pace of growth is expected to keep inflationary pressures in check. This is consistent with the projection of moderate non-inflationary growth in Ontario.
- ◆ European growth is expected to pick up as recent lower interest rates boost domestic demand and business investment.
- ◆ The strong yen and continued economic restructuring, particularly in the financial industry, are expected to keep Japanese growth modest, with real GDP rising by an average 2.3 per cent over the 1996 to 1998 period.

***Private  
sector  
forecasts  
renewed  
global  
growth***

### Private Sector Expects Ontario Economy to Outpace G-7 Countries

1996-98, Average annual per cent growth



\* Britain, France and Italy

Sources: *Consensus Forecasts*, *Blue Chip Economic Indicators* and Ontario Ministry of Finance

***Autos and  
high-tech  
sector lead  
growth***

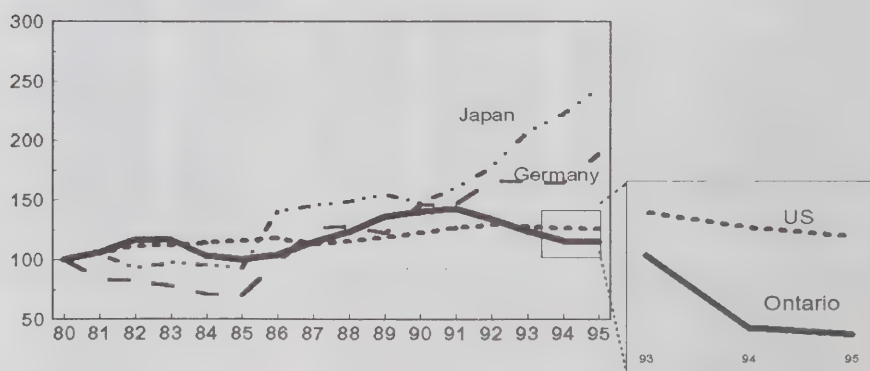
## Exports Will Continue to Lead Growth

Ontario exports will continue to be a key source of growth over the next three years. Exports are expected to grow faster than overall GDP, supported by Ontario's highly productive manufacturing sector, modest growth in U.S. demand and a competitively priced Canadian dollar.

- ◆ Ontario's strong competitive position reflects lower labour costs, strong capital investment and a competitive exchange rate. Since 1991, Ontario's unit labour costs, measured in U.S. dollars, have fallen 19.2 per cent, compared to a 0.6 per cent decline in the U.S. and increases of 28.8 per cent in Germany and 52.8 per cent in Japan.
- ◆ Although North American auto sales are projected to grow marginally over the next few years, North American assemblers will build more of the vehicles sold here. In addition, auto exports to the rest of the world should strengthen as North American-made cars displace high-priced European and Japanese models. Ontario auto exports are projected to surpass last year's record-breaking level.
- ◆ The value of Ontario's computer hardware and software exports has nearly doubled over the last three years and telecommunications exports have risen by nearly 60 per cent. Worldwide exports of high-technology business equipment will remain strong.

### Ontario's Manufacturing Competitiveness Improves as Unit Labour Costs Decline

Index of manufacturing unit labour costs  
1980=100, US\$



Sources: U.S. Bureau of Labor Statistics, Statistics Canada and Ontario Ministry of Finance

## Strength in Business Investment

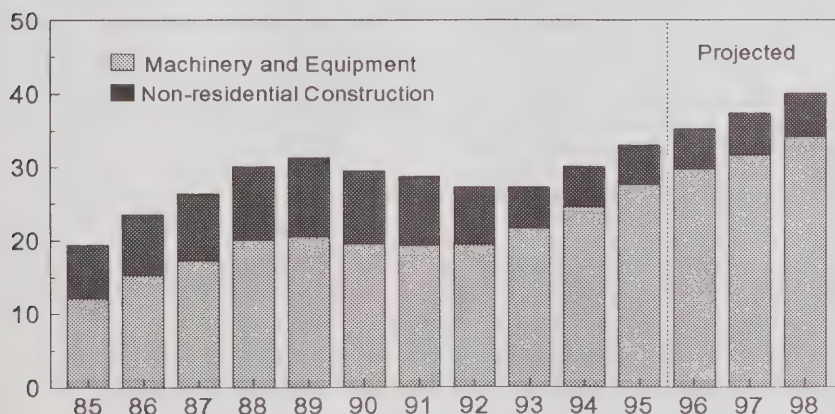
Total real business investment is expected to reach a record level of \$35.4 billion in 1996, and rise by an average annual rate of 6.6 per cent over the 1996 to 1998 period. This is much stronger than the first half of the 1990s when declines in plant construction led to an average annual decline of 0.8 per cent in total business investment.

- ◆ Investment in machinery and equipment is projected to rise by an average 7.3 per cent over the 1996 to 1998 period.
- ◆ Non-residential construction is projected to expand by an average 3.0 per cent per year over the 1996 to 1998 period, following six years of decline.
- ◆ According to Statistics Canada's investment intention survey, Ontario business investment in current dollars is expected to increase 3.7 per cent in 1996, compared to a 1.2 per cent decline for Canada as a whole.
- ◆ Ontario's investment is expected to be concentrated in the manufacturing and communications sectors, as growing firms invest in high-tech machinery and more modern industrial and commercial space. Major capital investments in mining and forest production are under way in Northern Ontario. (See map on the next page.)
- ◆ Strong profit growth will provide business with the cash flow necessary to finance their investments. Profits as a share of provincial income are projected to rise from 9.5 per cent in 1996 to 11.1 per cent in 1998. Excellent cost control, rising demand and Ontario's strong competitive position should support a sustained recovery in corporate profits.

***Investment  
gives  
business  
competitive  
advantage***

## Strong Growth in Ontario Investment

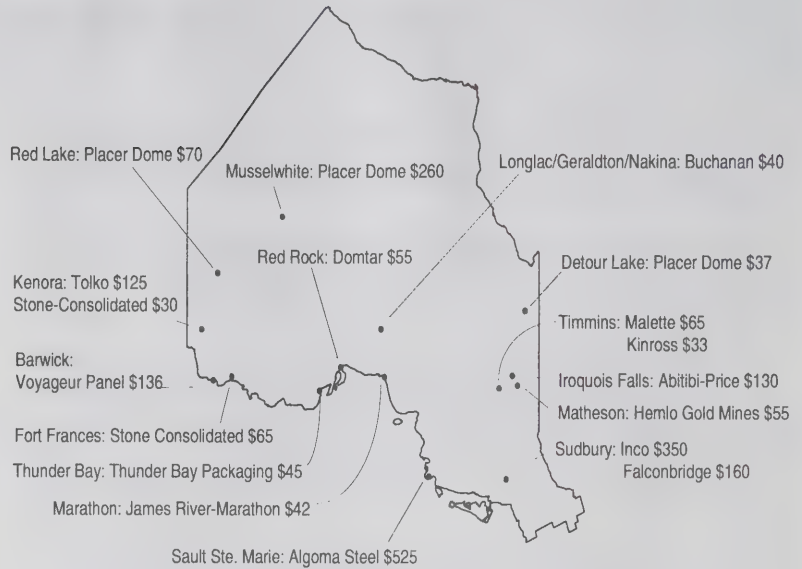
\$1986 Billions



Sources: Statistics Canada and Ontario Ministry of Finance.

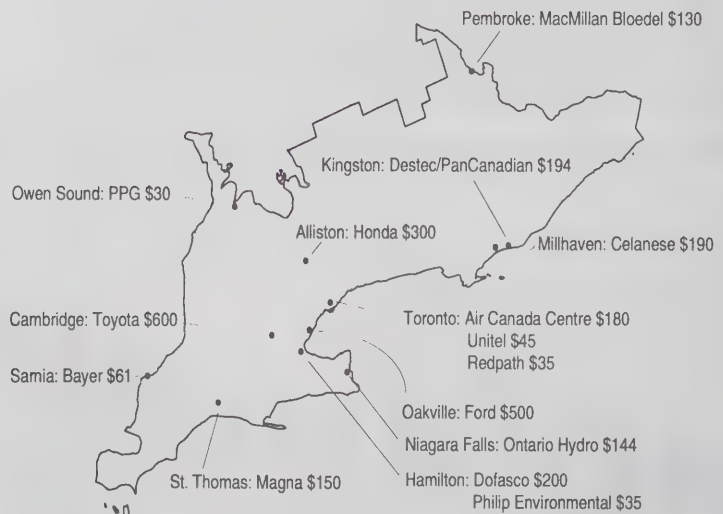
**Over \$2  
billion in  
major capital  
projects in  
the North...**

### Major Capital Projects Under Way in Northern Ontario (\$ millions)



**... and nearly  
\$3 billion in  
the South**

### Major Capital Projects Under Way in Southern Ontario (\$ millions)



## Small Business Sector

The small business sector is an important and dynamic sector of the economy. Businesses with fewer than 100 employees accounted for 96 per cent of the net job growth in the 1980s and for 31 per cent of the net job losses in the 1990 to 1993 period, the latest period for which data are available. Higher personal tax rates, the imposition of the Employer Health payroll tax and successive rounds of income tax hikes and minimum wage increases contributed to the poor performance in the early 1990s.

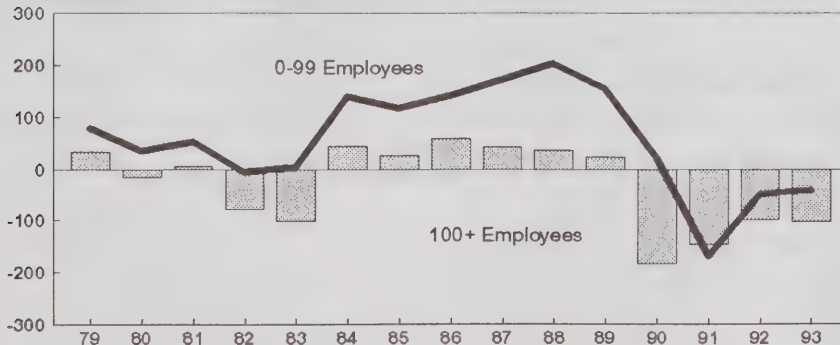
Lower taxes are particularly crucial to small business. These businesses often depend on the reinvested earnings of their owners for capital.

- ◆ A recent survey conducted by the Canadian Federation of Independent Business revealed that 80,000 small enterprises are ready to increase hiring plans as a direct result of Ontario's tax cuts.
- ◆ Lower personal taxes will contribute both to increased investment in existing business and higher business formation rates. The prospect of keeping a larger share of earnings will increase willingness to innovate and take risks.
- ◆ Small business will also benefit from the reduction in payroll taxes. Eliminating the Employer Health payroll tax on the first \$400,000 of payroll, freezing the minimum wage and reducing workers' compensation premiums will cut mandatory payroll costs.

***Small  
business  
leads job  
creation***

## Small Business Leads Job Creation

Ontario Net Job Creation by Firm Size  
Thousands



Note The data cover the commercial sector only. This data source provides the best available breakdown of employment by firm size. Employment is based on a full-time equivalent measure that is calculated by dividing a firm's payroll by the average wage in its industry and employment size group. Self-employed people who are issued a T4 are included. Although the trends are similar, these numbers are not directly comparable to the Labour Force Survey, which counts full-time and part-time jobs equally (as one job) and all self-employed people.

Sources: Statistics Canada, Business and Labour Market Analysis Division, and Ontario Ministry of Finance

***Tax cuts and  
job gains key  
to improving  
confidence***

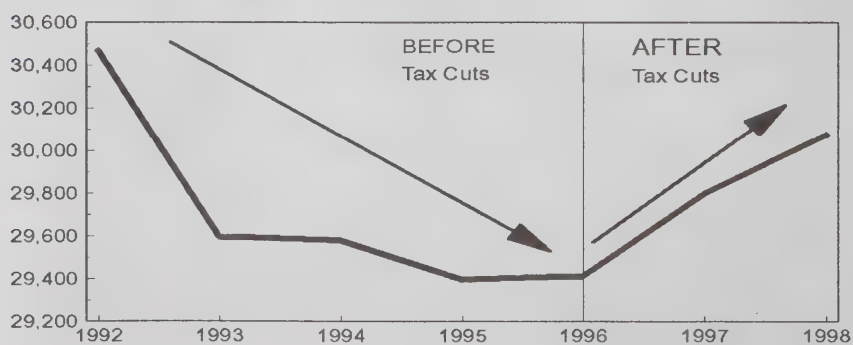
## Consumer Spending Supported by Tax Cuts and Job Gains

Consumer spending is expected to revive with lower taxes, solid job gains and a rebound in consumer confidence.

- ◆ Real consumption is projected to rise by 1.2 per cent in 1996 and accelerate to an average 3.1 per cent in 1997 and 1998, about the same pace as real disposable income. A large portion of the rise in spending is directly attributable to the personal income tax cuts that boost disposable income.
- ◆ New jobs and wage gains will lead to stronger income growth. The improved economic climate has already generated a significant number of jobs. This trend is projected to continue, with employment rising by an average annual rate of 1.8 per cent over the 1996 to 1998 period. Average wages are projected to rise by an average 2.0 per cent per year, in line with the wage gain over the past three years.
- ◆ The savings rate is expected to average about 8.0 per cent over the 1996 to 1998 period, which means consumers will spend about 92 cents out of every after-tax dollar earned.
- ◆ Lower taxes and low interest rates will help people pay down their debts, further strengthening consumer confidence. Low interest rates reduce the monthly payments on consumer loans, easing the burden of high debt levels. According to the federal Department of Finance, the average interest rate on consumer debt in Canada fell to 10.6 per cent in the fourth quarter of 1995, down from a peak of 16.0 per cent in the third quarter of 1990.

### Boost to Consumer Spending Through Tax Cuts and Job Gains

Real disposable income per worker, \$1986



Sources: Statistics Canada and Ontario Ministry of Finance

## Housing Now More Affordable

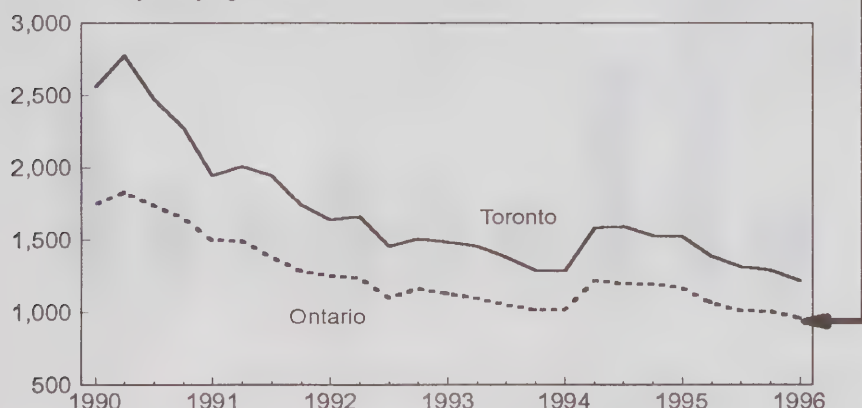
Personal income tax cuts, improved affordability and solid job gains will help rebuild consumer confidence and encourage housing activity. These conditions will strengthen housing sales and starts over the next few years.

- ◆ There is significant pent-up demand for housing. Over the first half of the decade, housing starts averaged close to 50,000 per year, well below underlying demographic requirements.
- ◆ The Land Transfer Tax refund for new home purchases will help people buy their first home.
- ◆ According to Canada Mortgage and Housing Corporation, home ownership has never been more affordable with over 40 per cent of all renters able to afford a starter home — a new high.
- ◆ The drop in carrying costs reflects both lower interest rates and lower average home prices. Monthly carrying costs for an average home in Ontario in the first quarter of 1996 were \$962 — the lowest in over a decade in real terms.

***Housing starts below requirements over last five years***

### Lowest Mortgage Carrying Costs in Over a Decade

Real monthly carrying costs, \$1995



Sources: Canadian Real Estate Association, Toronto Real Estate Board, Bank of Canada and Ontario Ministry of Finance

**Export  
sectors to  
lead growth**

**Domestic-  
oriented  
sectors  
continue  
recovery**

## Broad-based Growth for the Private Sector

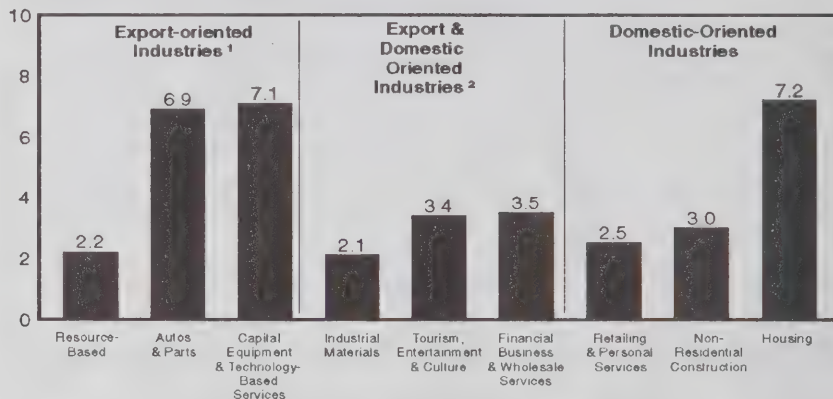
More balanced growth in demand throughout the economy is leading to sustained growth across a wide range of industrial sectors. Export-oriented sectors such as autos and capital equipment are continuing to gain market share in the United States. As a result, jobs will be created in manufacturing at a faster rate than in other sectors of the economy.

Production in sectors relying on both export and domestic markets, such as financial and business services, are growing steadily and constitute an important source of jobs. These service industries are also major exporters to other provinces and will benefit from their growth.

With higher consumer confidence, in part due to the income tax cut, sectors driven primarily by household spending – housing, retailing, leisure, entertainment and culture – are recovering. These household-related sectors are also returning as important sources of job creation.

### Sectoral Real Output Growth 1996-1998

Average annual per cent change



<sup>1</sup> Export well over 50 per cent of their output internationally. Resource-based industries include mining and forest products but exclude agriculture because it depends largely on domestic demand.

<sup>2</sup> Rely mainly on domestic demand although some also export to other provinces and countries.

Sources: Statistics Canada and Ontario Ministry of Finance.

# CONCLUSION

## Positive Job Creation Outlook

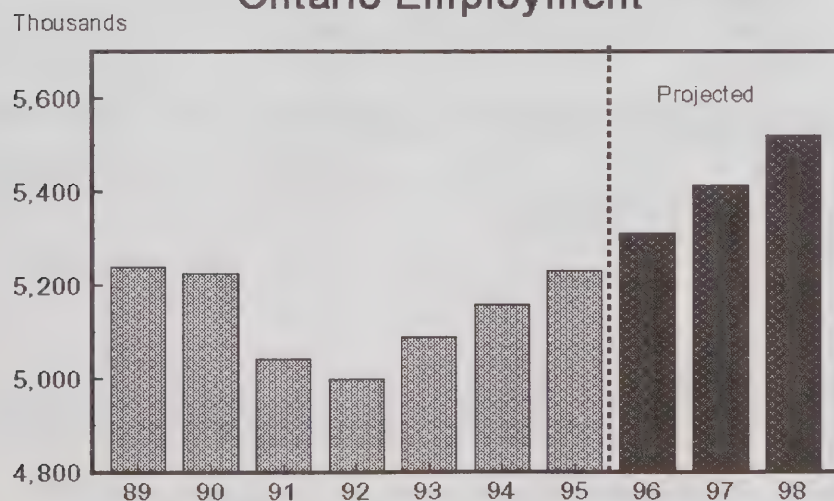
Steady economic growth will lead to solid job creation. Cutting income and payroll taxes, freezing the minimum wage, and cutting red tape are all measures designed to encourage initiative and job creation. Employment is projected to grow 1.5 per cent in 1996 and an average 1.9 per cent over 1997 and 1998.

- ◆ Ontario's economy is already seeing results: from June 1995 to March 1996 the Ontario economy has created 90,000 net new private-sector jobs.
- ◆ Industries providing good jobs at above-average wages will continue to lead job growth. For example, manufacturing and business services, such as advertising and computer services, are generating growing opportunities for high-skilled employment and accounted for three-quarters of the increase in private-sector jobs in 1995.

This projection of job creation, like other economic projections underlying the Ontario Budget, is intended to be a prudent planning assumption. The economy expanded at an annual rate of 0.8 per cent over the first half of the 1990s, well below Ontario's potential. This slow growth raised unemployment and created a huge pool of under-used capital. As a result, the Ontario economy has the capacity to grow significantly faster and create more jobs than the cautious projection in this Budget.

***Ontario's  
economy  
can create  
more jobs***

**Ontario Employment**



Sources: Statistics Canada and Ontario Ministry of Finance.

***Projections  
depend on  
prudent  
assumptions***

## **Sensitivity of Deficit to Changes in Economic Assumptions**

This Budget presents prudent assumptions about interest rates and economic growth in order to develop a cautious fiscal projection. The following table indicates the sensitivity of the deficit to the direct impact of lower interest rates on public debt interest (PDI) and the impact of stronger economic growth on revenues and expenditures. These are partial calculations. For example, the impacts do not incorporate the economic benefit of lower interest rates on economic activity.

- ◆ The impact of a one percentage-point change in interest rates on PDI would be about \$60 million in the first year and about \$180 million in the second year. The low sensitivity of public debt interest payments to higher interest rates in 1996-97 reflects the fact that Ontario has already borrowed \$5 billion for the current fiscal year.

### **Impact of Assumptions on the Ontario Deficit (change from base level)**

	Deficit (\$millions)	
	1996-97	1997-98
100 Basis Point Fall in Canadian Interest Rates	-60	-180
1 Percentage Point Increase in Real GDP Growth	-435	-880

\*Note: Second-year figures are cumulative change from base level.

Source: Ontario Ministry of Finance

- ◆ Ontario's economic growth projections are more cautious than the consensus of private-sector forecasts to ensure that the plan to meet the fiscal targets set out in this Budget is realistic and achievable.

### **Cautious Economic Growth Assumptions**

(per cent)	1996	1997	1998
<b>Ontario Real GDP Growth</b>			
Private-sector high	2.7	4.3	4.7
Private-sector low	1.5	2.3	2.2
Private-sector survey average	2.1	3.1	3.3
Ontario's prudent projection	1.9	2.8	3.0

Sources: Ontario Ministry of Finance Survey April 30 and Ontario Ministry of Finance

Note: The private-sector average is based on 10 respondents for 1996, 9 for 1997 and 5 for 1998.

**The Ontario Economy, 1993-1998**  
(per cent change)

**Table A1**

	Actual			Projected		
	1993	1994	1995	1996	1997	1998
<b>Real Gross Domestic Product</b>	1.3	5.5	2.5	1.9	2.8	3.0
Personal consumption	1.3	2.9	1.4	1.2	3.1	3.0
Government spending	-0.6	0.1	-0.6	-3.2	-4.7	-3.4
Residential construction	-6.8	5.0	-12.0	3.4	9.0	9.3
Non-residential construction	-27.5	-2.2	-3.0	0.9	3.9	4.2
Machinery and equipment	11.1	13.8	12.4	7.9	6.2	7.8
Exports	8.6	12.7	10.3	8.7	5.1	4.6
Imports	8.8	11.8	10.1	6.9	4.6	4.4
<b>Nominal Gross Domestic Product</b>	2.0	5.2	3.3	3.4	4.4	4.8
<b>Other Economic Indicators</b>						
Retail sales	3.8	6.7	3.1	1.3	4.8	4.9
Housing starts (000s)	45.1	46.6	35.8	42.6	51.7	60.0
Personal income	0.8	2.2	3.2	2.7	3.9	4.4
Corporate profits	14.9	36.9	12.1	8.3	10.0	15.3
Ontario Consumer Price Index	1.7	0.1	2.4	1.4	1.6	1.8
<b>Labour market</b>						
Labour force	1.5	0.3	0.4	1.8	1.7	1.7
Employment	1.8	1.4	1.4	1.5	1.9	2.0
Unemployment rate (per cent)	10.6	9.6	8.7	8.9	8.8	8.5

Sources: Statistics Canada and Ontario Ministry of Finance



# **Spending Taxpayers' Dollars Wisely: Ontario's Balanced Budget Plan**



## INTRODUCTION

In June 1995, the government faced an \$11.2 billion deficit. As a first step in improving the fiscal situation of the Province, in July 1995, the government announced a plan to reduce the 1995-96 deficit by \$1.9 billion. In November, the Minister of Finance presented the 1995 Fiscal and Economic Statement confirming the \$9.3 billion deficit outlook for 1995-96 and announcing further savings to be achieved in 1996-97.

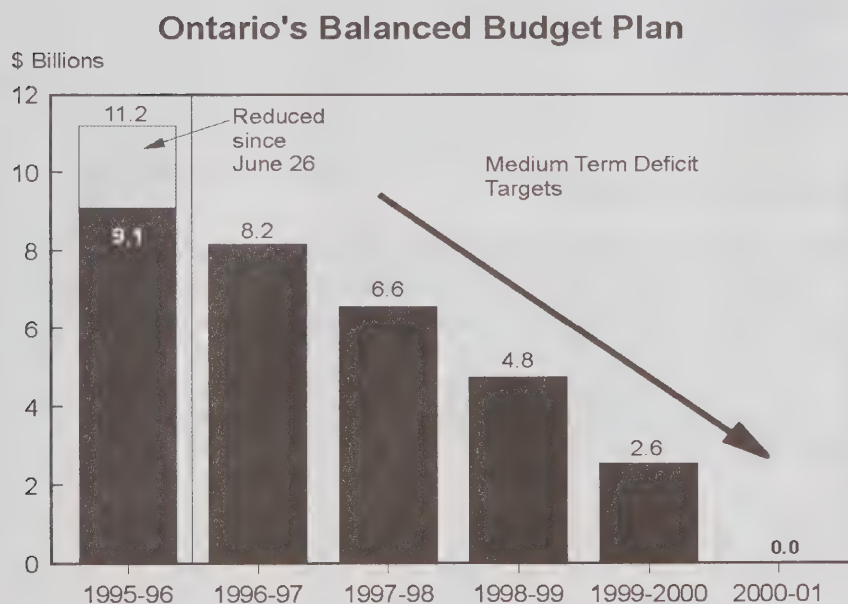
This paper:

- ◆ reviews 1995-96 in-year fiscal performance;
- ◆ outlines the 1996-97 budget plan;
- ◆ sets out the medium term fiscal outlook; and
- ◆ outlines the Government's borrowing strategy.

## BALANCING THE BUDGET

In the November 1995 Fiscal and Economic Statement, the Government presented a Balanced Budget Plan. The Plan set out specific annual deficit targets culminating in a balanced budget by the year 2000-01. The Government is on track to meet these targets.

***Government  
is on track to  
balance  
budget***



***Deficit for  
1995-96  
lower than  
projected***

## OVERACHIEVING THE 1995-96 DEFICIT TARGET

Based on interim results, the deficit for 1995-96, at \$9,098 million, overachieved the November Fiscal Plan deficit target by \$210 million.

The 1995-96 interim results reported in this paper are based on information available as of April 25, 1996. These interim results are subject to year-end closing procedures and audit, and will be reflected in the 1995-96 Public Accounts.

### 1995-96 In-Year Fiscal Performance (\$ Millions)

	Fiscal Plan	Interim	In-Year Change
Revenue	46,786	47,819	1,033
Expense:			
Programs	43,713	43,652	(61)
Restructuring and Other Charges	-	1,431	1,431
Total Program Expense	43,713	45,083	1,370
Capital	3,412	3,510	98
Public Debt Interest	8,969	8,324	(645)
Total Expense	56,094	56,917	823
<b>Deficit</b>	<b>9,308</b>	<b>9,098</b>	<b>(210)</b>

Since the release of the fiscal plan outlined in the November Statement, revenue has increased \$1,033 million and total expense has increased \$823 million. The increase in total expense is primarily due to \$1,431 million in government restructuring and other charges.

### 1995-96 Revenues

Total revenue in 1995-96 was \$1,033 million above the level projected in the November 1995 Fiscal and Economic Statement. Tax revenue was \$561 million higher, Income from Government Enterprises, such as the Ontario Casino Corporation, was up \$117 million and Federal Transfers were \$422 million higher. Other revenue including Fines and Penalties, was down a net \$67 million.

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**Summary of In-Year Revenue Changes, 1995-96**  
**(\$ Millions)**

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<b>Taxation Revenue</b>	
Corporations Tax	520
Employer Health Tax	50
Other Taxation	(9)
<b>Total Taxation Revenue</b>	<b>561</b>
<b>Income from Government Enterprises</b>	
Casino Corporation	19
Ontario Lottery Corporation	20
Ontario Realty Corporation	75
Other Enterprises	3
<b>Total Income from Government Enterprises</b>	<b>117</b>
<b>Federal Transfers</b>	
Fiscal Stabilization	367
Other	55
<b>Total Federal Transfers</b>	<b>422</b>
<b>Other Revenue</b>	
Fines and Penalties	(36)
Sales and Rentals	(29)
Other	(2)
<b>Total Other Revenue</b>	<b>(67)</b>
<b>Total In-Year Revenue Changes</b>	<b>1,033</b>

---

Stronger economic growth boosted tax revenues above the cautious November projections. Corporations Tax revenue accounted for most of the in-year tax revenue gain. Robust corporate profit growth pushed Corporations Tax revenue \$520 million above the fiscal plan. Employer Health Tax revenue was \$50 million higher, reflecting stronger-than-projected income growth. All other tax revenues followed closely the revenue outlook presented in the November Statement.

Total Federal payments were \$422 million higher than the November outlook. This increase was primarily due to the receipt of \$367 million as final settlement of Ontario's 1992-93 Fiscal Stabilization claim.

Income from Government Enterprises exceeded the November projections by \$117 million as income from the Casino Corporation and Lottery Corporation were both higher than projected.

In keeping with the recommendations of the Ontario Financial Review Commission, the Ontario Realty Corporation has been classified as a government service organization rather than a government enterprise. As a result, its net loss of \$75 million estimated in November for 1995-96 is no longer included under "Income from Government Enterprises". Instead, its revenues and expenses are consolidated on a line-by-line basis.

***Stronger  
economic  
growth  
boosted tax  
revenues***

**Program  
spending  
down by \$61  
million**

Other Revenue was down \$67 million largely due to lower-than-expected revenue from Fines and Penalties and Sales and Rentals.

### **1995-96 In-Year Program Expense Changes**

Program spending, before restructuring and other charges, decreased \$61 million from the fiscal plan presented in the 1995 Fiscal and Economic Statement.

#### **Summary of In-Year Program Expense Changes, 1995-96 (\$ Millions)**

Ontario Student Assistance Plan	
- Increased provision for forgiveness of loans	136
- Increased provision for bad debts	34
1988 Grievance Settlement Costs - Property Assessors	29
Additional Cost of Royal Commission on Education Reform initiatives	15
Net Savings from OPSEU Strike	(105)
Ministry of Health - Various	(95)
Increased savings from elimination of JobsOntario program	(45)
General Legislative Grants	
- Social Contract and year-end Savings	(44)
Ontario Government Relocation Savings	(8)
Other (Net)	22

#### **Total In-Year Program Expense Changes (61)**

An increase in expense for the Ontario Student Assistance Plan (OSAP) of \$170 million results from a larger-than-expected increase in OSAP recipients than was estimated for in the 1995-96 year. Of this increase, \$136 million is due to an additional provision for loan forgiveness while \$34 million relates to an increased provision for bad debts. OSAP is a demand-driven, open-ended program. The adjustment properly reflects the costs of outstanding loan guarantees in the year they were made.

A settlement was reached in a classification grievance for property assessors, retroactive to 1988, which resulted in an increase of \$29 million in expense for the Ministry of Finance.

Implementing the recommendations of the Royal Commission on Education Reform required an additional \$15 million in 1995-96 to fund initiatives such as the Youth Transitions From School, Curriculum Standards and Assessment, Teacher Education Reform and Transfer of Technology into Schools.

Net savings arising from the strike by the Ontario Public Service Employees Union totalled an estimated \$105 million.

Expenses in the Ministry of Health were \$95 million below the fiscal plan. This reflects a refinement of expenditure requirements in a number of programs and year-end savings in administration.

Further savings of \$45 million resulted from the elimination of the JobsOntario program.

General Legislative Grants in-year savings of \$41 million in 1995-96 resulted from agreements with the Metro Toronto and Ottawa School Boards to recover outstanding Social Contract savings. An additional \$3 million in savings resulted from year-end underspending.

A reduction in the purchase of furniture and equipment under the Ontario Government Relocation Program yielded \$8 million in savings.

### **Provision for Government Restructuring and Other Charges**

Under public sector accounting guidelines, the cost of decisions regarding restructuring or cancellation of programs is reflected in the year in which they are made. Accordingly, a number of one-time adjustments are required in 1995-96 to reflect government restructuring decisions and other charges.

***1995-96  
figures  
include one-  
time charges***

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#### **Government Restructuring and Other Charges (\$ Millions)**

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##### **Government Downsizing Provisions**

Employee Severance Charges (including pension costs)	520
Social Housing Cancellation Charges	128
Provision for Terminating Former MPP Pension Plan	30
Eglinton West Subway Suspension Costs	30

##### **Other Provisions**

Increase in Provision for Early Retirement Pension Option	400
Corporate Tax Refunds - Oil and Gas and Mining Industry	260
Provision for Loan Losses & Guarantees	
- Ontario Development Corporations	63

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<b>Total 1995-96 Restructuring and Other Charges</b>	<b>1,431</b>
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During the year, the Government approved a number of actions that result in restructuring charges.

These actions include reducing the size of the Ontario Public Service and recognizing related employee severance costs, such as termination pay and salary during the notice period. Severance costs are included in 1995-96, the year the decision was made. Also

***Pension plan  
for MPPs has  
been ended***

included are the costs of the pension bridging option and the reopening of the early retirement pension option for affected employees. A provision of \$520 million has been made for these costs.

In July 1995, non-profit housing projects that were under development but not yet under construction were cancelled. Third Quarter Ontario Finances for 1995-96 identified that a provision for these and other cancellation costs would be needed and noted that the precise amount would be included in the 1996 Budget. A charge of \$128 million has been included for the cancellation of 395 projects for items such as selecting and obtaining appropriate sites and building permits.

During the year, the Government decided to terminate the former pension plan for Members of Provincial Parliament. \$30 million has been provided to terminate the plan and honour outstanding obligations.

In July 1995, the Government announced its intention to suspend the construction of the Eglinton West subway line. The provincial share of costs to suspend the project is estimated at \$30 million.

Until March 31, 2000, Ontario Public Service employees may opt for retirement without pension penalty within three months of when their age plus years of service total 80 (i.e. Factor 80). The actual participation in this pension option is significantly greater than anticipated and the \$400 million increase to the estimated cost of the Factor 80 program is reflected in the current period.

A settlement by Revenue Canada arising from a court ruling involving the computation of "resource profits" and related issues will result in corporations tax refunds for companies in the oil and gas and mining industries. Under Ontario's *Corporations Tax Act*, the Province adopts the federal definition of "resource profits". Refunds to be paid by the Province over the next three to four years are estimated at \$260 million.

The provision to cover losses on loans and guarantees administered by the Ontario Development Corporations (ODC) is increased by \$63 million. A decision to wind down ODC's loan portfolio was announced in the 1995 Fiscal and Economic Statement. The increase in the loan loss provision reflects the remaining anticipated loan losses over this period.

## 1995-96 In-Year Capital Expense Changes

The table below summarizes the major in-year capital changes from the November fiscal plan.

### Summary of In-Year Capital Expense Changes, 1995-96 (\$ Millions)

Metro Toronto Convention Centre	75
Canada-Ontario Infrastructure Works Program	23
Grievance Settlement costs - Engineering staff	9
Other (Net)	(9)
<b>Total In-Year Capital Expense Changes</b>	<b>98</b>

The largest additional capital increase results from the Province providing a capital grant of \$75 million towards the construction of the \$185 million expansion of the Metro Toronto Convention Centre approved in November 1993. As recommended by the Ontario Financial Review Commission, the Province is showing this expenditure in its financial statements when it was paid.

The pace of municipal construction activity for approved projects under the Canada-Ontario Infrastructure Works program has exceeded projections, resulting in an increase of \$23 million.

A settlement was reached in a classification grievance for engineering staff that resulted in an increase of \$9 million in expenses in the Ministry of Transportation.

## Public Debt Interest - 1995-96

The interim result for Public Debt Interest (PDI) expense in 1995-96 was \$8,324 million, compared to \$8,969 million planned in the 1995 Fiscal and Economic Statement. The contingencies included in the PDI forecast proved to be too cautious. In fact, interest rates generally fell through the year and cash requirements decreased by over \$2 billion. Lower interest rates coupled with lower cash requirements resulted in PDI being \$645 million below forecast.

While the PDI forecast will continue to be cautious, changes have been made to ensure that forecast variances are reduced and that changes to the forecast are identified and reported as soon as possible.

***Debt interest  
lower than  
expected***

## Restatement of Prior-Year Public Accounts

Four items have been restated for prior years to reflect appropriate treatment under the Province's current accounting policies.

### 1993-94 and 1994-95 Restated Deficits (\$ Million)

	1993-94	1994-95
Deficit per Public Accounts	10,848	10,129
Adjustments:		
Student Loan Program	250	234
Grants to School Boards	98	82
Legal Aid Program	104	6
Public Debt Interest	0	(174)
<b>Restated Deficit</b>	<b>11,300</b>	<b>10,277</b>

Refinements have been made to the way in which provisions and accrual amounts are calculated: forgiveness and default on student loans guaranteed by the Province under the Student Loan Program; operating grants to school boards; and the costs of the legal aid program. Under public sector accounting guidelines, when these types of changes are made, previous deficits are restated to show what they would have looked like had the new approach been used in those years.

In previous years the government recorded the costs of forgiving loans and covering defaulted loans under the Student Loan Program in the period when the banks were paid. Now, under the accrual basis of accounting, these expenses are recorded in the period when the government approves the loan application. As a result, Student Loan Program expenses have been increased \$250 million in 1993-94 and \$234 million in 1994-95.

In preparation for moving the budget to a basis consistent with public sector accounting guidelines, the Government undertook a thorough review of amounts owing for operating grants to school boards on March 31 of the current year and in each of the two previous years. These amounts must be estimated because the school boards are on a calendar fiscal year. This review revealed that of the amounts owing at March 31, 1996, \$98 million related to the 1993-94 fiscal year, and \$82 million related to 1994-95.

In previous years, the government recorded as its liability for legal aid the amount of unpaid invoices received from lawyers at year end. This method of accounting did not take into consideration work completed by lawyers for which no invoices had been received. The adjustment, increasing expenses by \$104 million in 1993-94 and \$6 million in 1994-95, reflects this additional liability.

In managing the Province's finances, the Ontario Financing Authority periodically restructures debt. Such activities result in equal and offsetting gains and losses in the components of debt being restructured. As a result of a debt restructuring undertaken in 1994-95, the full amount of a loss was charged to 1994-95 while the offsetting gain was deferred over a number of years. Public sector accounting practices require that such related gains and losses be recorded over the same periods. Applying this treatment to the 1994-95 restructuring decreases public debt interest in that year by \$174 million.

## OPEN AND ACCOUNTABLE FISCAL PLANNING

### 1996-97 Fiscal Plan

As a result of the measures announced in 1995-96 and those introduced in this Budget, the Government will meet the balanced budget deficit target for 1996-97 of \$8.2 billion.

The following table summarizes the 1996-97 fiscal plan.

#### 1996-97 Fiscal Plan (\$ Millions)

	Interim 1995-96	Plan 1996-97	Change	
			\$Million	Per Cent
<b>Revenue:</b>				
Taxation	35,993	36,168	175	0.5
Federal Transfers	7,724	6,030	(1,694)	(21.9)
Income from Government Enterprises	1,317	1,682	365	27.7
Other Revenue	<u>2,785</u>	<u>2,780</u>	<u>(5)</u>	(0.2)
Total Revenue	47,819	46,660	(1,159)	(2.4)
<b>Expense:</b>				
Programs	43,652	41,841	(1,811)	(4.1)
Restructuring Fund and Other Charges	<u>1,431</u>	<u>900</u>	<u>(531)</u>	(37.1)
Total Program Expense	45,083	42,741	(2,342)	(5.2)
Capital	3,510	2,704	(806)	(23.0)
Public Debt Interest	<u>8,324</u>	<u>8,745</u>	<u>421</u>	5.1
Total Expense	56,917	54,190	(2,727)	(4.8)
Reserve	--	650	650	--
<b>Deficit</b>	<b>9,098</b>	<b>8,180</b>	<b>(918)</b>	<b>(10.1)</b>

## 1996-97 Revenues

Total revenue is projected to decline in 1996-97 to \$46,660 million. This is primarily a result of falling federal transfers, which are expected to decrease by \$1,694 million.

PIT revenue is projected at \$15,213 million in 1996-97. This level reflects both cautious economic and revenue assumptions and the impact of the tax rate cut announced in this Budget.

Corporations Tax revenue is projected to increase by 5.1 per cent to \$5,370 million as a result of continuing profit growth and the impact of the Corporations Tax changes announced in the Budget. Deliberately cautious assumptions for Corporations Tax revenue growth means it is projected to grow at less than estimated corporate profit growth of 8.3 per cent.

Retail Sales Tax (RST) revenue is estimated to be \$9,520 million in 1996-97, an increase of 1.8 per cent from 1995-96. This growth is based on projected nominal GDP growth of 3.4 per cent and includes the two RST reduction measures announced in the Budget.

Employer Health Tax (EHT) revenue is projected to be \$2,665 million. This reflects the impact of the EHT exemption announced in the Budget and continued growth in salaries and employment.

Gasoline and Fuel Tax revenues are expected to grow by 1.8 per cent to \$2,505 million, in line with real GDP growth of 1.9 per cent. As gas and fuel are taxed by volume, the growth of these revenues reflects growth in Ontario's real GDP, rather than nominal GDP.

Income from 11 government enterprises is projected to increase in total by 27.7 per cent to \$1,682 million. Income from the Liquor Control Board of Ontario (LCBO) and the Ontario Lottery Corporation is expected to rise as sales continue to expand with population and incomes. In addition, as a result of efficiency reviews of these corporations, profitability is expected to increase, improving the return to the Province.

An additional \$60 million in Lottery Corporation income is also projected in 1996-97, as the implementation of the province's video lottery terminal network commences. Legislative amendments are being introduced to facilitate the establishment of this network.

Provincial revenue from casino operations is projected at \$575 million in 1996-97, an increase from the \$419 million received in 1995-96. This increase reflects having the Windsor Casino riverboat operational for the full fiscal year and the anticipated opening of interim casinos in Niagara Falls and Rama in 1996.

Primarily as a result of the overall federal plan to reduce federal transfers to provinces for priority programs such as health, higher education and social services by 42 per cent over the period 1995-96 to 1998-99, federal payments to Ontario will decline by \$1,694 million in 1996-97.

In 1996-97, Established Programs Financing (EPF) and the Canada Assistance Plan (CAP) have been replaced by the Canada Health and Social Transfer (CHST) block fund. Amendments will be introduced to the *Family Benefits Act* to reflect this change. CHST cash transfers to Ontario will be \$1,169 million lower in 1996-97 than the combined level for EPF and CAP in 1995-96.

The decline in federal payments also reflects the impact of the one-time \$367 million Fiscal Stabilization payment received in 1995-96 as well as reductions in a number of other federal-provincial transfer programs in areas such as training, bilingualism, young offenders and vocational rehabilitation.

Other revenue, including Vehicle and Driver Registration Fees, Other Fees and Licences and Liquor Licence Board of Ontario revenues, is estimated to be \$2,780 million, approximately equal to the 1995-96 level. Included in this projection is approximately \$20 million from the establishment of permanent charity event sites.

### **1996-97 Expenses**

The 1996-97 expense plan reflects savings measures taken by the Government. In the November Statement, the government announced a two-year savings goal of \$3 billion in operating expenses. This two-year goal covers the following categories of expenditures:

- ◆ internal administration to be reduced by 33 per cent by 1997-98, saving \$300 million annually;
- ◆ program delivery and operations also to be reduced by 33 per cent by 1997-98, saving \$1,100 million annually;
- ◆ agencies, boards and commissions to be reduced by 28 per cent by 1997-98, saving \$220 million annually; and
- ◆ government grants to be reduced by 28 per cent as well, saving \$1,400 million annually by 1997-98.

On April 11, the Chair of Management Board provided a progress report outlining \$1.6 billion in identified savings to date. Of this amount, \$1.5 billion relates to the \$3 billion savings objective, marking the half-way point, with the balance to be found by the end of 1997-98.

In addition, the Government is reviewing capital programs to focus on core activities and achieve efficiencies.

Major Transfers, which include unconditional grants to municipalities, general legislative grants to schools and operating grants to universities, colleges and hospitals, represented approximately \$15 billion in 1995-96 or one-third of program spending. As a result of

***Cautious  
economic  
and revenue  
assumptions***

***Finding cost  
savings in  
government***

**Ontario  
Opportunities  
Fund  
earmarked  
for reducing  
debt**

funding levels announced in the November Fiscal and Economic Statement, all of the recipients of these transfer payments have been asked to find significant savings through restructuring, elimination of waste and more efficient administration.

To help the sectors find these savings, the Government has provided a variety of tools, including fewer provincial restrictions on funding, enhanced revenue-generating powers, and measures to reduce overlap and duplication.

As a result of these measures, the Government is on track to meet its savings targets.

### **Ontario Opportunities Fund**

To accelerate the pace of debt and deficit reduction, the Government is establishing the Ontario Opportunities Fund. The Fund will receive contributions from Ontarians, proceeds from major asset sales, and savings realized from the over-achievement of the Budget target in a given fiscal year. The \$210 million over achievement in the 1995-96 deficit target will be applied to this fund. At the end of each fiscal year, the balance in the Ontario Opportunities Fund will be applied to reducing the debt of the Province.

Consistent with its commitment, the Government will amend the *Financial Administration Act* to create the Ontario Opportunities Fund account as part of the Public Accounts to reflect specific contributions to deficit reduction and debt retirement. The Budget and Public Accounts of the Province will report each year on the Ontario Opportunities Fund.

### **Prudent Budgeting**

As part of the Government's cautious and prudent approach to fiscal planning, the 1996-97 fiscal plan includes a reserve of \$650 million. The reserve is designed to cushion or protect the fiscal plan against potential unexpected and adverse changes in the economic outlook and its impact on revenues and public debt interest costs.

The reserve of \$650 million could accommodate a variance in the revenue forecast equal to the revenue yield from approximately 1.5 percentage points of nominal GDP. Alternatively, this reserve could accommodate the equivalent of an unexpected drop of approximately seven per cent of Retail Sales Tax revenue or 12 per cent of Corporations Tax revenue.

If the reserve is not used or needed by year end, the unused reserve will be reflected in the Ontario Opportunities Fund.

In addition to the reserve, \$900 million has been set aside in 1996-97 to create a Restructuring Fund. This fund will allow for investments that support restructuring efforts and will cover the one-time costs of government restructuring.

## MEDIUM TERM OUTLOOK

The Government is on track to meet the balanced budget deficit targets outlined in the November 1995 Fiscal and Economic Statement.

Under the Plan, Ontario's deficit will be cut from \$9.1 billion in 1995-96 to \$8.2 billion in 1996-97. In 1997-98, the deficit will be cut further to \$6.6 billion.

**Deficit  
projected at  
\$6.6 billion  
for 1997-98**

### Medium Term Fiscal Outlook (\$ Billions)

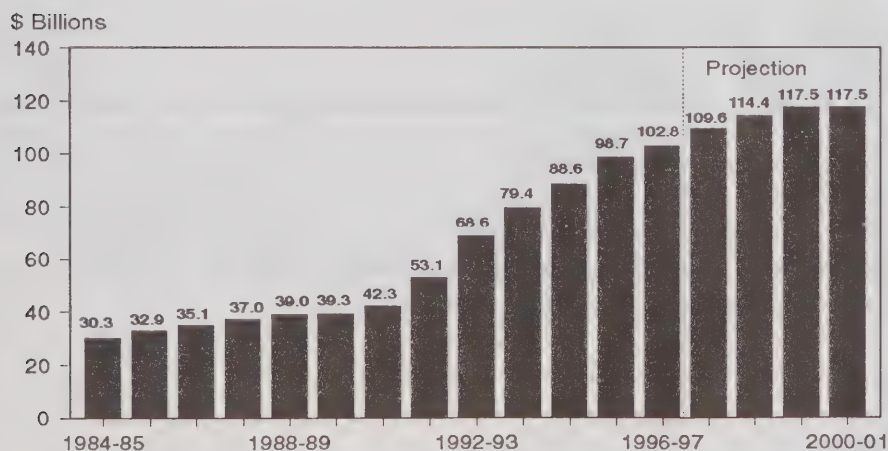
	Interim 1995-96	Plan 1996-97	Outlook 1997-98
Revenue	47.8	46.7	46.1
Expense:			
Programs	43.7	41.8	40.4
Restructuring Fund and Other Charges	1.4	0.9	-
Total Program Expense	45.1	42.7	40.4
Capital	3.5	2.7	2.2
Public Debt Interest	8.3	8.7	9.4
Total Expense	56.9	54.2	52.0
Reserve	--	0.7	0.7
<b>Deficit</b>	<b>9.1</b>	<b>8.2</b>	<b>6.6</b>

Note: Totals may not add due to rounding.

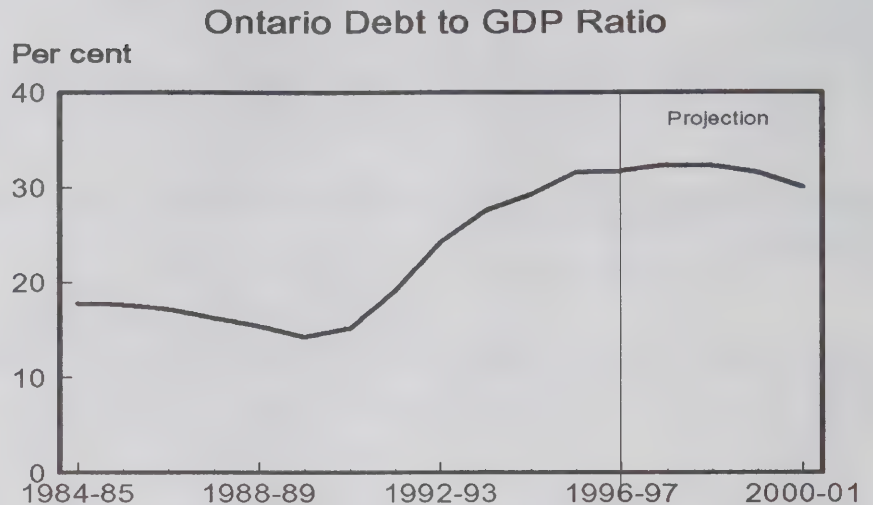
Achievement of a balanced budget by 2000-01 will also affect two other key fiscal performance measures.

- ◆ It will stop the growth of Ontario's debt by 2000-01.

### Ontario's Projected Debt



- ◆ It will reduce debt as a per cent of GDP beginning in 1998-99.



## BORROWING AND DEBT MANAGEMENT

In 1995-96, the Ontario Financing Authority borrowed a total of \$12.3 billion. These funds were used as follows:

### Ontario's Financing, 1995-96 (\$ Billion)

Deficit	9.1
Non-Cash Items	(2.4)
Borrowing Requirements	6.7
Plus:	
Maturities	2.1
Borrowing on Behalf of Agencies	0.5
Total Borrowing Requirements	9.3
Total Borrowing Completed	12.3
Increase in Liquid Reserves	3.0

The Province's total direct debt on March 31, 1996 was \$98.7 billion, up from \$88.6 billion on March 31, 1995. It is forecast to be \$102.8 billion on March 31, 1997. This small increase reflects the lower deficit and an accelerated borrowing program during 1995-96 to take advantage of low interest rates.

As a government agency, the Authority adheres to prudent practices in managing the Province's debt. Risk-management activities are governed by strict policies and procedures limiting Ontario's exposure to interest rate and currency fluctuations.

The Ontario Financing Authority is responsible for managing all of the borrowings that rely on the Province's credit strength. As such, the Authority continues to coordinate financing strategy with Ontario Hydro. While Ontario Hydro is issuing new bonds to refinance maturing debt, it is now paying down debt.

The Province's declining deficit, coupled with Hydro's lower borrowing requirements are clear, positive signals to lenders and investors, and reflect favourably on their perceptions of Ontario and its finances. For example, in February the Authority issued a 10 year US\$ Global bond at a premium of 48 basis points over US Treasury Bonds. This was the lowest premium since 1990.

### **Prudent Development of Financing Opportunities**

To meet the Province's financing requirements in a cost-effective way, the Ontario Financing Authority has developed a series of targeted financial products attractive to fixed-income investors in both domestic and international markets.

While the Canadian domestic market remained the primary source of funds in the past year, the Ontario Financing Authority continued cautiously to diversify its use of financing instruments and markets last year. Taking advantage of a strengthening Canadian dollar, the Authority launched the first Canadian Dollar Global bond issue since 1994. U.S. Dollar Global, Swiss Franc and Deutschemark bonds were also issued.

The Authority also created, in cooperation with private sector advisors, the first 'retirement bond' designed to appeal to Canadian retail investors. Canadian, U.S., and Australian dollar bonds, designed to appeal to Japanese retail investors, were issued as well. The Authority also raised funds through direct agreements with a number of large institutional investors.

Lower interest rates enabled the Authority to reduce interest costs for new issues and refinancings. Some maturing debt had interest rates as high as 12.96 per cent; this debt has been refinanced with long-term Canadian interest rates as low as 7.5 per cent.

### **Borrowing Outlook**

Each year the Authority borrows to finance the current year's deficit; finance a portion of the following year's requirements; and refinance maturing debt.

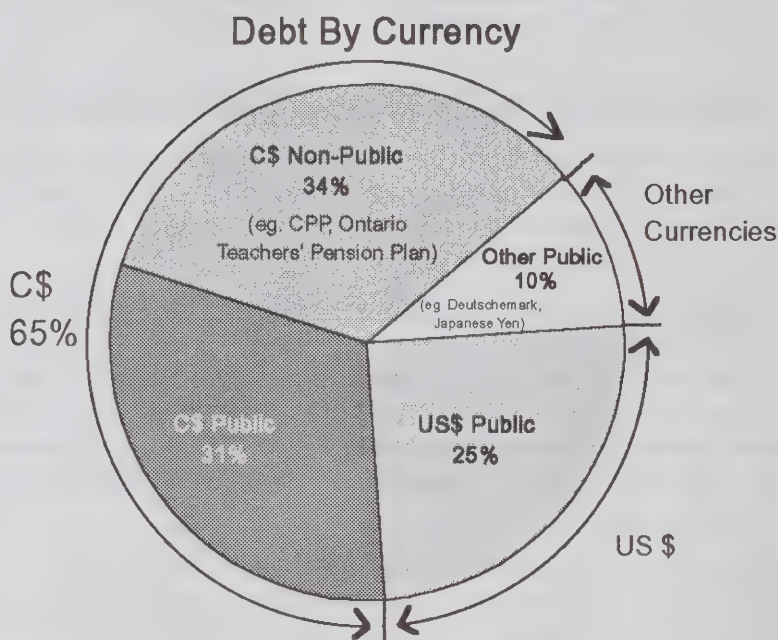
***Ontario  
Savings  
Bonds to be  
issued in  
June***

The Authority began the 1996-97 fiscal year with liquid reserves in excess of \$11 billion. To complete the Province's borrowing program for the current year, including refinancing of \$6.1 billion for maturing debt, the Authority will borrow \$10 billion, including monies raised from Ontario Savings Bonds, which will be launched this June.

Significant improvement in the Province's fiscal position over the medium term will result in the continued decline of new borrowing requirements.

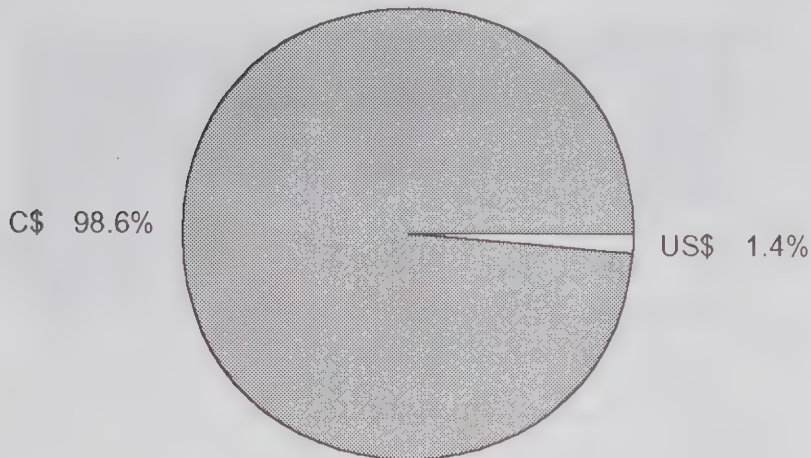
**Ontario's Debt Composition**

- ◆ The following chart illustrates the currencies in which Ontario's debt has been issued.



Although \$34.2 billion (or 35%) of Ontario's debt was issued in foreign currencies, transactions have been entered into that have eliminated all but \$1.3 billion (or 1.4%) of Ontario's exposure to foreign currencies.

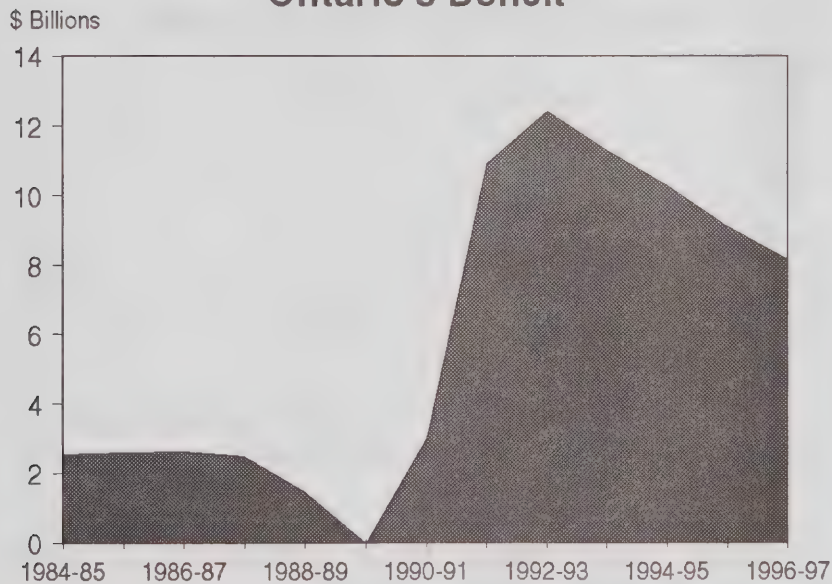
## Ontario Foreign Currency Debt \$34.2 Billion: Net Foreign Currency Exposure



## FISCAL INDICATORS

Several commonly used indicators to review Ontario's recent fiscal performance are presented below.

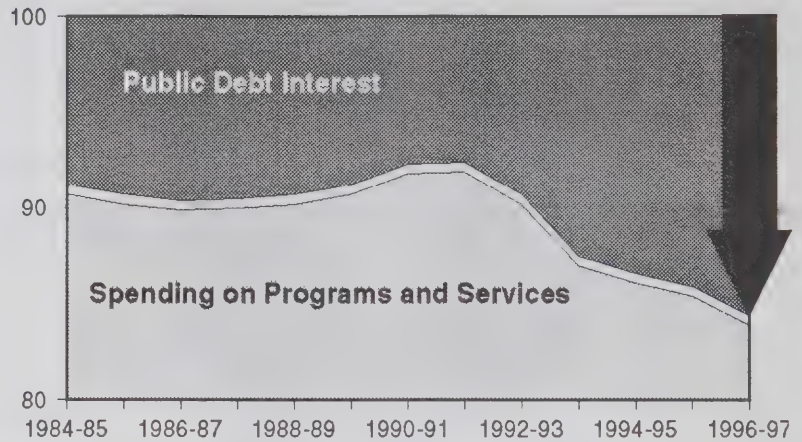
### Ontario's Deficit



Note: Prior to 1993-94 data on a modified cash basis.

## PDI Crowding out Funding for Programs and Services

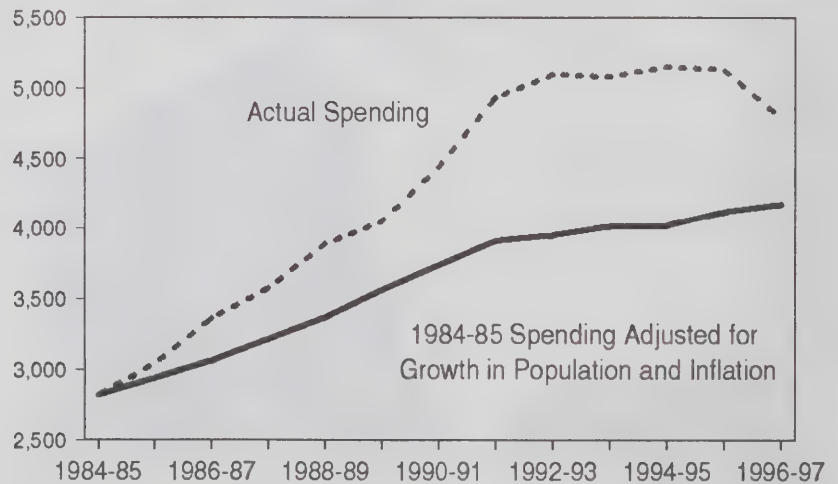
Per Cent



Note: Prior to 1993-94 data on modified cash basis

## Spending has Grown Faster Than the Growth in Population and Inflation

\$ Per Capita



Note: Prior to 1993-94 data on a modified cash basis.

## Spending to GDP Ratio

Per Cent



Note: Prior to 1993-94 data on a modified cash basis



# ***Financial Tables and Graphs***



**Statement of Financial Transactions**  
**(PSAAB Basis)**  
**(\$Millions)**

**Table C1**

	<b>Actual 1992-93</b>	<b>Actual 1993-94</b>	<b>Actual 1994-95</b>	<b>Interim 1995-96</b>	<b>Plan 1996-97</b>
<b>Revenue</b>	41,807	43,674	46,039	47,819	46,660
<b>Expense</b>					
Programs	45,350	44,293	44,653	43,652	41,841
Restructuring Fund and Other Charges	-	-	--	1,431	900
Total Programs Expense	45,350	44,293	44,653	45,083	42,741
Capital	3,592	3,552	3,831	3,510	2,704
Public Debt Interest	5,293	7,129	7,832	8,324	8,745
Total Expense	54,235	54,974	56,316	56,917	54,190
Reserve	-	-	-	-	650
<b>Deficit</b>	<b>12,428</b>	<b>11,300</b>	<b>10,277</b>	<b>9,098</b>	<b>8,180</b>

Note: 1992-93 on former modified cash basis of accounting.

**Ontario Opportunities Fund**  
**(\$ Million)**

	<b>1995-96</b>
Debt Issued for Provincial Purposes (April 1, 1995)	\$88,580
Add: Borrowing Requirements to finance projected deficit of \$9,308 million	6,738
Increase in liquid reserves and investments in agencies	<u>3,614</u>
Increase in debt:	<u>\$10,352</u>
Debt Before Ontario Opportunities Fund	<u>98,932</u>
Less:	
<b>Ontario Opportunities Fund</b>	
Over achievement in 1995-96 deficit target	210
Fund Balance Applied to Debt Reduction	<u>(210)</u>
Debt Issued for Provincial Purposes (March 31, 1996)	<u>\$98,722</u>

**Revenue**  
**(PSAAB Basis)**  
**(\$Millions)**

**Table C2**

	<b>Actual 1992-93</b>	<b>Actual 1993-94</b>	<b>Actual 1994-95</b>	<b>Interim 1995-96</b>	<b>Plan 1996-97</b>
<b>Taxation Revenue</b>					
Personal Income Tax	13,543	14,723	14,758	15,443	15,213
Retail Sales Tax	7,316	8,124	9,090	9,355	9,520
Corporations Tax	2,713	3,447	4,557	5,110	5,370
Employer Health Tax	2,592	2,665	2,640	2,670	2,665
Gasoline Tax	1,834	1,907	1,939	1,950	1,985
Fuel Tax	439	460	495	510	520
Tobacco Tax	969	724	322	330	330
Land Transfer Tax	363	321	372	346	365
Other Taxation	272	288	286	279	200
	<b>30,041</b>	<b>32,659</b>	<b>34,459</b>	<b>35,993</b>	<b>36,168</b>
<b>Government of Canada</b>					
Canada Health and Social Transfer			-	-	5,260
Established Programs Financing	4,316	3,790	4,059	3,921	-
Canada Assistance Plan	2,283	2,399	2,577	2,508	-
Fiscal Stabilization	300	227	184	367	-
National Training Act	104	76	75	61	26
Bilingualism Development	70	70	65	58	50
Young Offenders	60	59	82	63	59
Vocational Rehabilitation	75	65	61	63	46
Canada-Ontario Infrastructure Works	-	-	82	313	223
Other	346	385	422	370	366
	<b>7,554</b>	<b>7,071</b>	<b>7,607</b>	<b>7,724</b>	<b>6,030</b>
<b>Income from Government Enterprises</b>					
Ontario Lottery Corporation	538	602	631	645	736
Liquor Control Board of Ontario	615	599	637	669	685
Ontario Casino Corporation	-	-	316	419	575
Ontario Housing Corporation	-	(275)	(273)	(268)	(232)
GO Transit	-	(136)	(166)	(170)	(157)
Other	-	(25)	(77)	22	75
	<b>1,153</b>	<b>765</b>	<b>1,068</b>	<b>1,317</b>	<b>1,682</b>
<b>Other Revenue</b>					
Vehicle/Driver Registration Fees	665	695	751	760	790
Other Fees and Licences	584	663	686	670	680
Liquor Licence Board of Ontario Revenues	511	522	532	530	530
Royalties	191	239	223	242	260
Sales and Rentals	512	486	98	56	67
Fines and Penalties	152	141	163	105	100
Miscellaneous	444	433	452	422	353
	<b>3,059</b>	<b>3,179</b>	<b>2,905</b>	<b>2,785</b>	<b>2,780</b>
<b>Total Revenue</b>	<b>41,807</b>	<b>43,674</b>	<b>46,039</b>	<b>47,819</b>	<b>46,660</b>

Note: 1992-93 on former modified cash basis of accounting.

**Operating Expense**  
**(PSAAB Basis)**  
**(\$Millions)**

**Table C3**

<b>Ministry</b>	<b>Actual 1992-93</b>	<b>Actual 1993-94</b>	<b>Actual 1994-95</b>	<b>Interim 1995-96</b>	<b>Plan 1996-97</b>
Agriculture, Food and Rural Affairs	552	533	409	422	425
Attorney General	736	901	799	753	637
Board of Internal Economy	133	137	135	210	120
Citizenship, Culture and Recreation	409	370	408	376	322
Community and Social Services	8,544	9,165	9,364	8,770	8,200
Consumer and Commercial Relations	173	175	150	141	110
Economic Development, Trade and Tourism	427	416	463	438	245
Education and Training	8,964	8,789	8,461	8,156	7,601
Teachers' Pension Plan	933	467	643	795	902
Environment and Energy	434	390	272	243	172
Executive Offices	13	13	10	13	13
Finance - Own Account	885	562	930	683	392
Public Debt Interest	5,293	7,129	7,832	8,324	8,745
Health	17,525	17,375	17,599	17,679	17,718
Intergovernmental Affairs	9	7	6	5	5
Labour	241	180	135	141	115
Management Board Secretariat	264	116	337	625	432
Public Service/OPSEU Pension Plan	381	737	738	734	284
Contingency Fund	-	-	-	-	213
Employee Severance	-	-	-	520	-
Municipal Affairs and Housing	1,987	1,559	1,487	1,793	1,888
Native Affairs Secretariat	17	14	16	16	13
Natural Resources	584	502	478	523	373
Northern Development & Mines	105	83	54	49	42
Office of Francophone Affairs	4	3	3	3	2
Office Responsible for Women's Issues	24	23	22	20	17
Solicitor General and Correctional Services	1,168	1,168	1,136	1,133	1,116
Transportation	838	608	598	842	684
Restructuring Fund	-	-	-	-	900
Year-end Savings	-	-	-	-	(200)
<b>Total Operating Expense</b>	<b>50,643</b>	<b>51,422</b>	<b>52,485</b>	<b>53,407</b>	<b>51,486</b>

Note: 1992-93 on former modified cash basis of accounting.

**Capital Expense**  
**(PSAAB Basis)**  
**(\$Millions)**

**Table C4**

<b>Ministry</b>	<b>Actual 1992-93</b>	<b>Actual 1993-94</b>	<b>Actual 1994-95</b>	<b>Interim 1995-96</b>	<b>Plan 1996-97</b>
Agriculture, Food and Rural Affairs	21	13	12	5	-
Attorney General	7	3	4	17	46
Citizenship, Culture and Recreation	94	28	42	24	6
Community and Social Services	57	77	72	25	38
Economic Development, Trade and Tourism	39	113	117	112	41
Education and Training	543	432	421	576	222
Environment and Energy	230	162	271	232	196
Finance	3	3	3	-	-
Health	230	309	249	135	167
Management Board Secretariat	192	169	260	248	146
Contingency Fund	-	-	-	-	14
Municipal Affairs and Housing	103	96	310	483	332
Native Affairs Secretariat	17	15	17	10	15
Natural Resources	75	95	54	47	32
Northern Development & Mines	239	208	240	173	228
Solicitor General and Correctional Services	4	5	2	3	6
Transportation	1,738	1,824	1,757	1,420	1,215
<b>Total Capital Expense</b>	<b>3,592</b>	<b>3,552</b>	<b>3,831</b>	<b>3,510</b>	<b>2,704</b>

Note: 1992-93 on former modified cash basis of accounting.

**Financing**  
**(PSAAB Basis)**  
**(\$Millions)**

**Table C5**

	<b>Actual 1992-93</b>	<b>Actual 1993-94</b>	<b>Actual 1994-95</b>	<b>Interim 1995-96</b>	<b>Plan 1996-97</b>
Debt Issues:	16,605	11,991	11,327	12,029	10,000
Debt Retirements:					
Canada Pension Plan	(537)	(607)	(702)	(784)	(813)
Ontario Teachers' Pension Plan	(506)	(251)	(64)	(198)	(337)
OPSEU Pension Plan	-	-	(9)	(43)	(44)
Public Service Pension Plan	(62)	(106)	(95)	(182)	(95)
Municipal Employees Retirement Fund	-	(130)	(149)	(92)	(20)
Public	(7)	(273)	(1,289)	(833)	(4,759)
Other	(10)	(11)	(22)	(10)	(18)
	(1,122)	(1,378)	(2,330)	(2,142)	(6,086)
Net Debt Issues	15,483	10,613	8,997	9,887	3,914
Province of Ontario Savings Office and					
Other Liabilities - Net	41	219	144	255	184
<b>Net Financing</b>	<b>15,524</b>	<b>10,832</b>	<b>9,141</b>	<b>10,142</b>	<b>4,098</b>
Net Loan Repayments/(Issues)	(309)	507	75	(442)	(533)
Decrease/(Increase) in Cash	(2,787)	(3,217)	490	(2,962)	4,705
Net Change in Receivables and Payables	-	3,178	571	2,360	(90)
<b>Increase in Accumulated Deficit</b>	<b>12,428</b>	<b>11,300</b>	<b>10,277</b>	<b>9,098</b>	<b>8,180</b>

# Ten-Year Review of Selected Financial and Economic Statistics

(\$Millions)

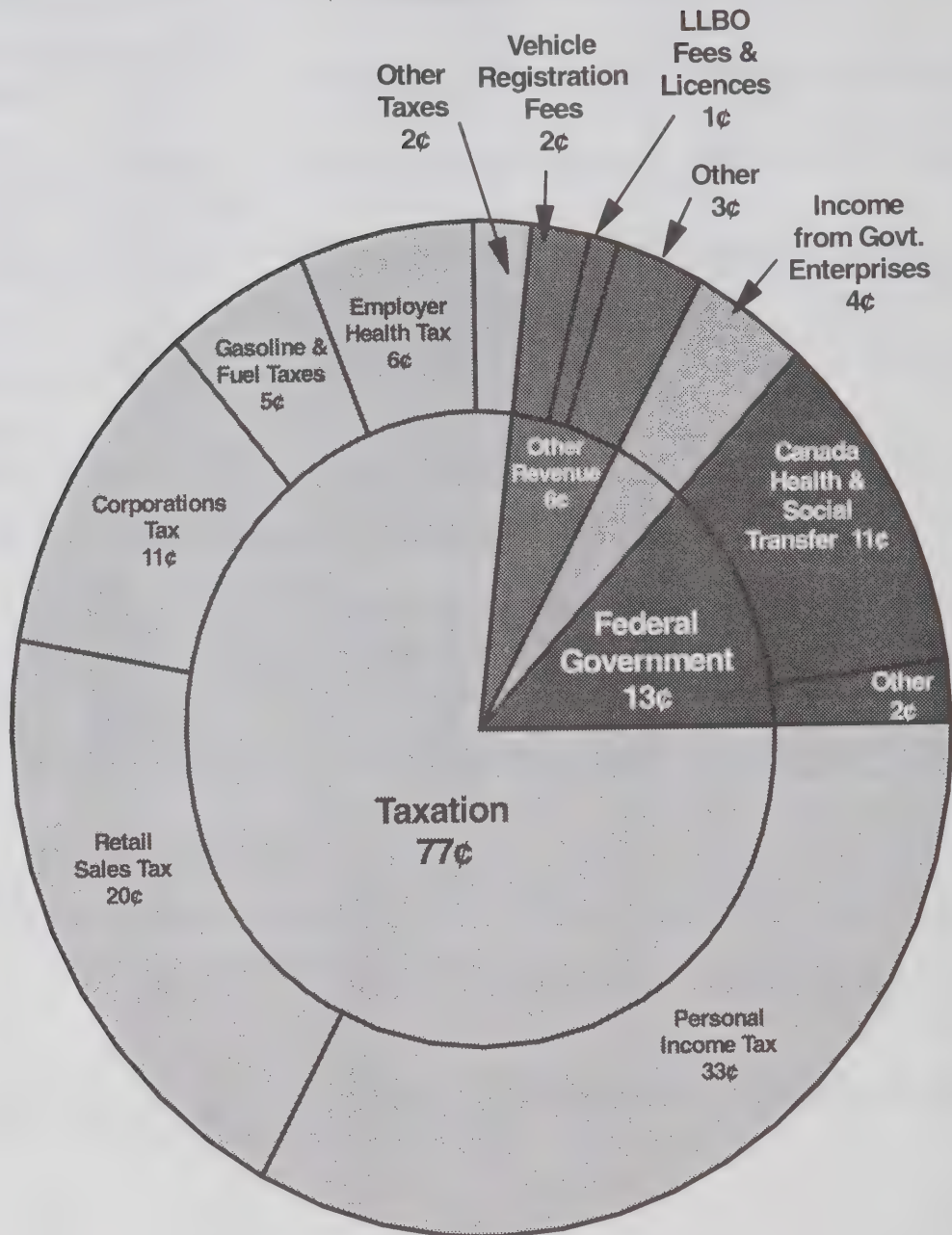
	Modified Cash Basis			
	1987-88	1988-89	1989-90	1990-91
<b>Financial Transactions</b>				
Revenue	32,158	36,991	41,225	42,892
Expense:				
Programs	28,548	31,435	33,926	38,924
Restructuring Fund and				
Other Charges	-	-	-	-
Total Program Expense	28,548	31,435	33,926	38,924
Capital	2,623	3,268	3,392	3,221
Public Debt Interest	3,476	3,767	3,817	3,776
Total Expense	34,647	38,470	41,135	45,921
Reserve	-	-	-	-
<b>Deficit/(Surplus)</b>	<b>2,489</b>	<b>1,479</b>	<b>(90)</b>	<b>3,029</b>
<b>Provincial Purpose Debt</b>	<b>36,981</b>	<b>39,014</b>	<b>39,256</b>	<b>42,257</b>
Gross Domestic Product (GDP)				
at Market Prices	226,313	252,631	274,833	277,454
Personal Income	185,882	206,780	226,707	239,036
Population - July (000s)	9,685	9,884	10,151	10,341
Total Debt per Capita (dollars)	3,818	3,947	3,867	4,086
Personal Income per Capita (dollars)	19,193	20,921	22,333	23,115
Total Expense as a per cent of GDP	15.3	15.2	15.0	16.6
Public Debt Interest as a per cent				
of Revenue	10.8	10.2	9.3	8.8
Total Debt as a per cent of GDP	16.3	15.4	14.3	15.2
Cumulative Net Borrowing for Ontario Hydro				
U.S.	6,033	5,692	5,150	5,049
C.P.P.	1,508	2,097	2,748	2,748
Contingent Liability (mainly Ontario Hydro)	18,595	20,559	21,490	26,009

Note: 1993-94 and 1994-95 restated actuals.

1991-92	1992-93	PSAAB Basis			
		1993-94	1994-95	Interim 1995-96	Plan 1996-97
40,753	41,807	43,674	46,039	47,819	46,660
43,613	45,350	44,293	44,653	43,652	41,841
-	-	-	-	1,431	900
43,613	45,350	44,293	44,653	45,083	42,741
3,874	3,592	3,552	3,831	3,510	2,704
4,196	5,293	7,129	7,832	8,324	8,745
51,683	54,235	54,974	56,316	56,917	54,190
-	-	-	-	-	650
<b>10,930</b>	<b>12,428</b>	<b>11,300</b>	<b>10,277</b>	<b>9,098</b>	<b>8,180</b>
<b>53,083</b>	<b>68,607</b>	<b>79,439</b>	<b>88,580</b>	<b>98,722</b>	<b>102,820</b>
277,851	282,040	287,651	302,482	312,414	323,025
245,137	250,332	252,434	258,088	266,326	273,425
10,472	10,646	10,816	10,936	11,100	11,318
5,069	6,444	7,345	8,100	8,894	9,085
23,409	23,513	23,340	23,599	23,993	24,158
18.6	19.2	19.1	18.6	18.2	16.8
10.3	12.7	16.3	17.0	17.4	18.7
19.1	24.3	27.6	29.3	31.6	31.8
4,185	3,969	1,789	1,088	1,060	n/a
2,748	2,748	2,748	2,748	2,748	n/a
30,369	34,657	34,008	33,420	30,747	n/a

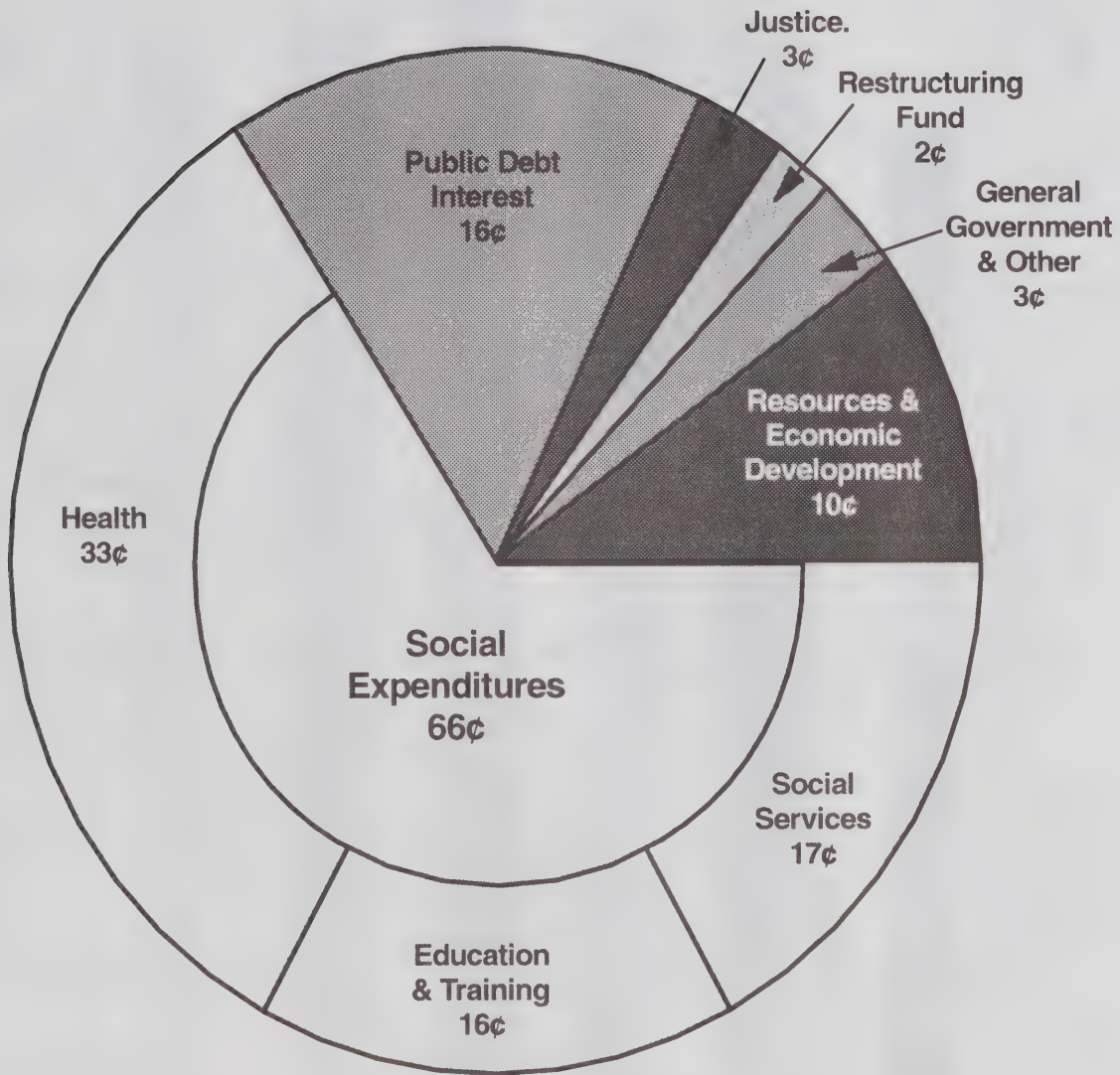
# The Budget Dollar: Revenue

## 1996-97



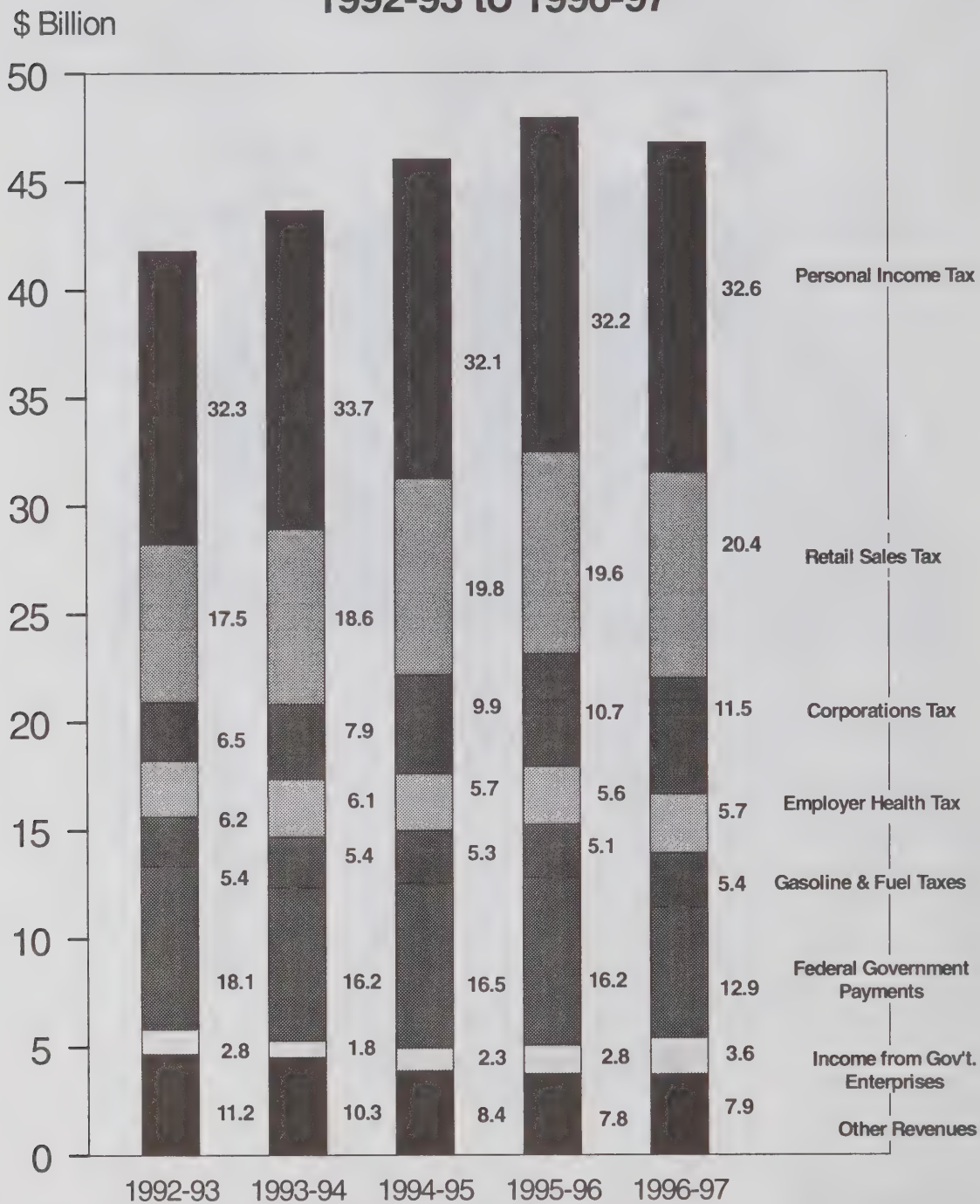
PSAAB Basis

# The Budget Dollar: Total Expense 1996-97



PSAAB Basis

# Revenue Sources By Category: Per Cent of Total 1992-93 to 1996-97



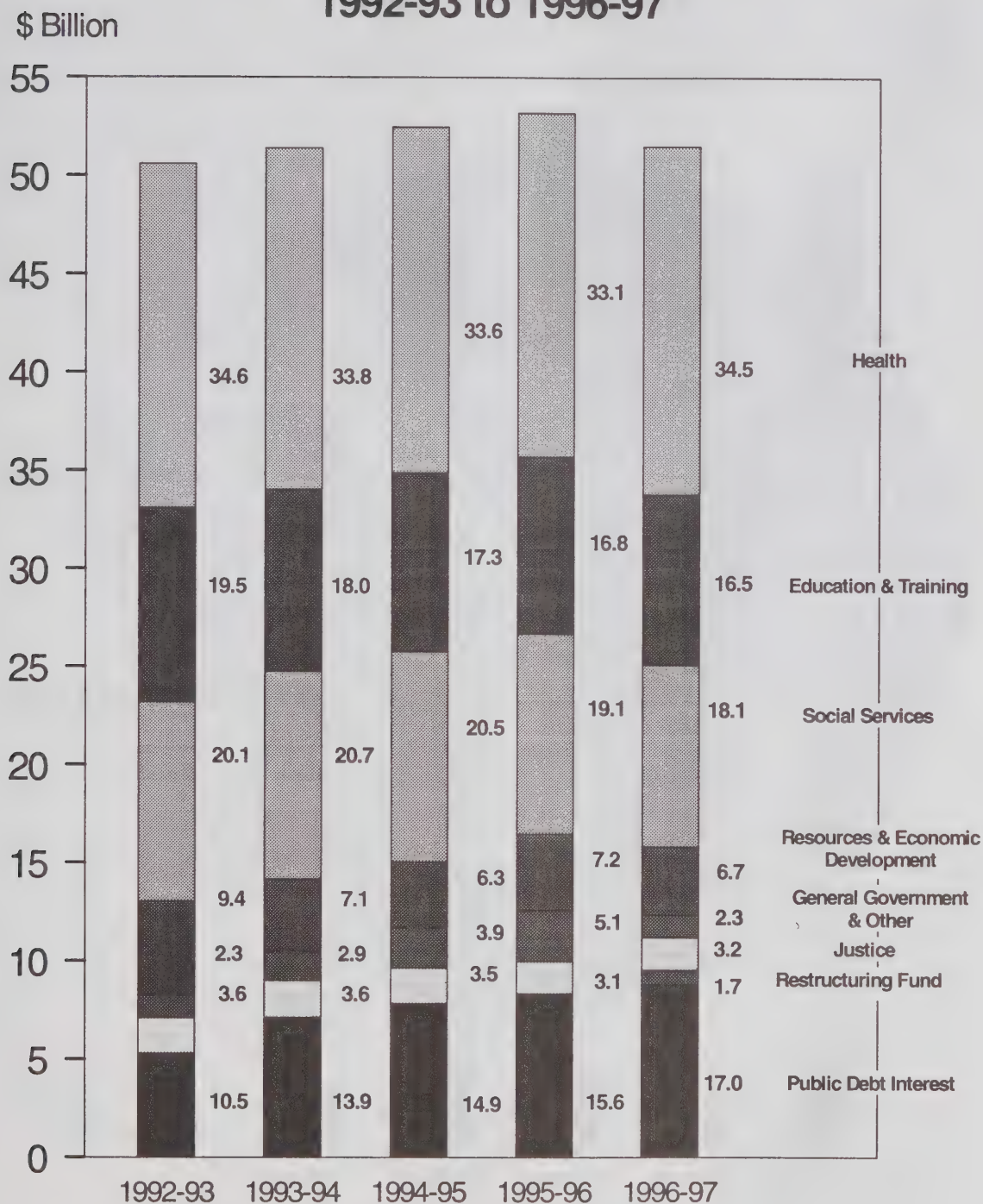
Note: 1992-93 on former modified cash basis of accounting

PSAAB Basis

# Operating Expense by Category

## Per Cent of Total

### 1992-93 to 1996-97



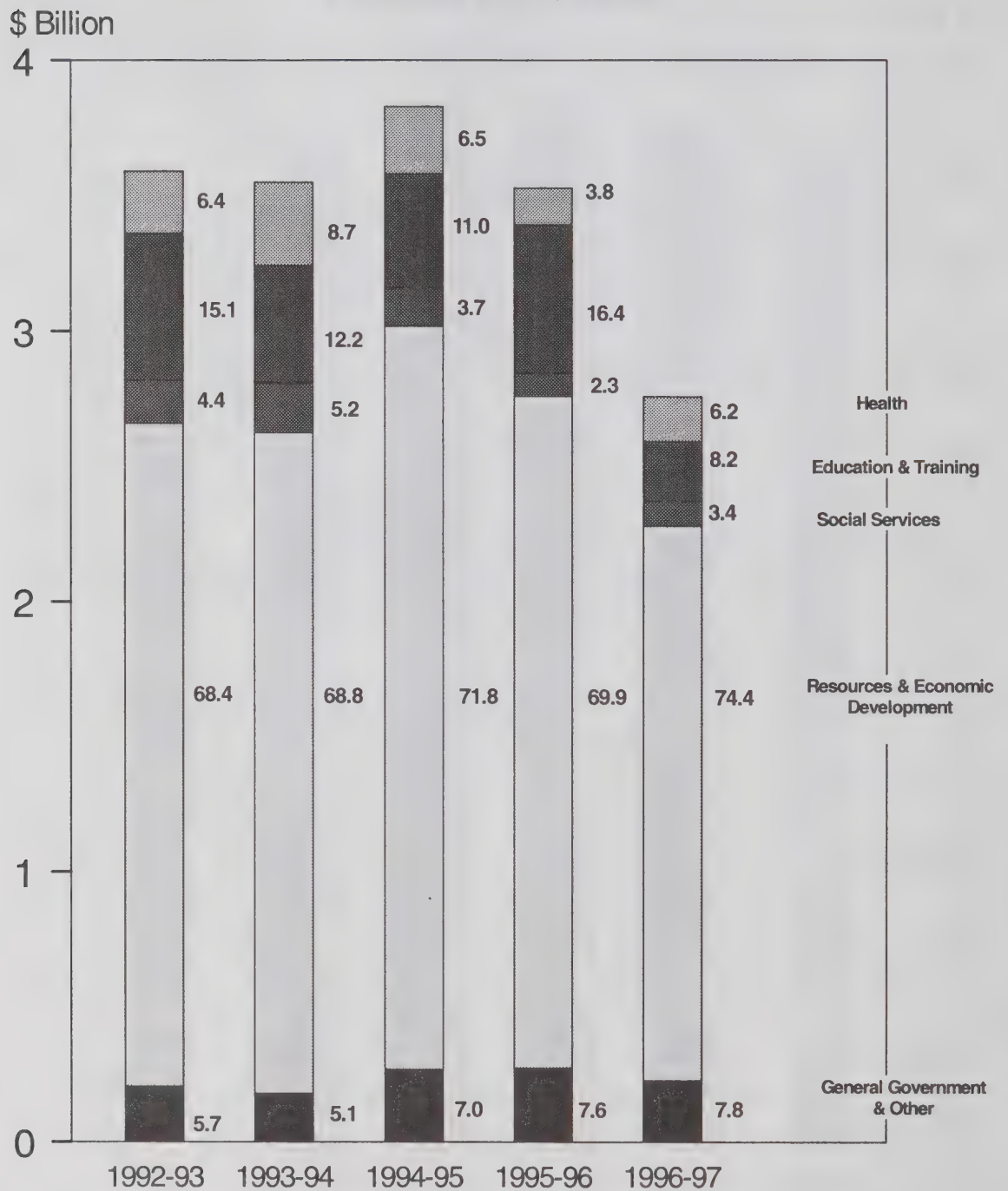
Note: 1992-93 on former modified cash basis of accounting

PSAAB Basis

# Capital Expense by Category

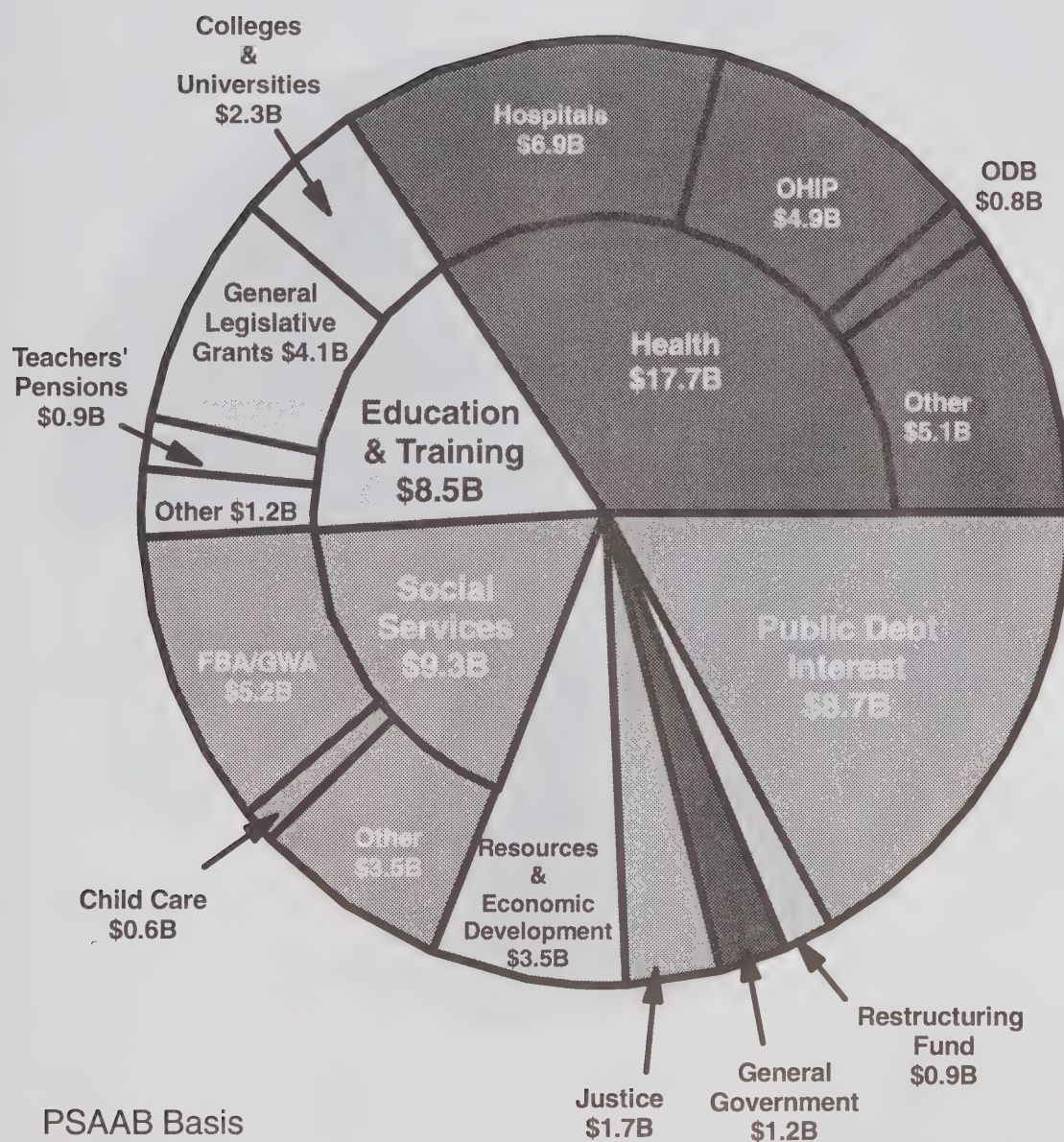
## Per Cent of Total

### 1992-93 to 1996-97

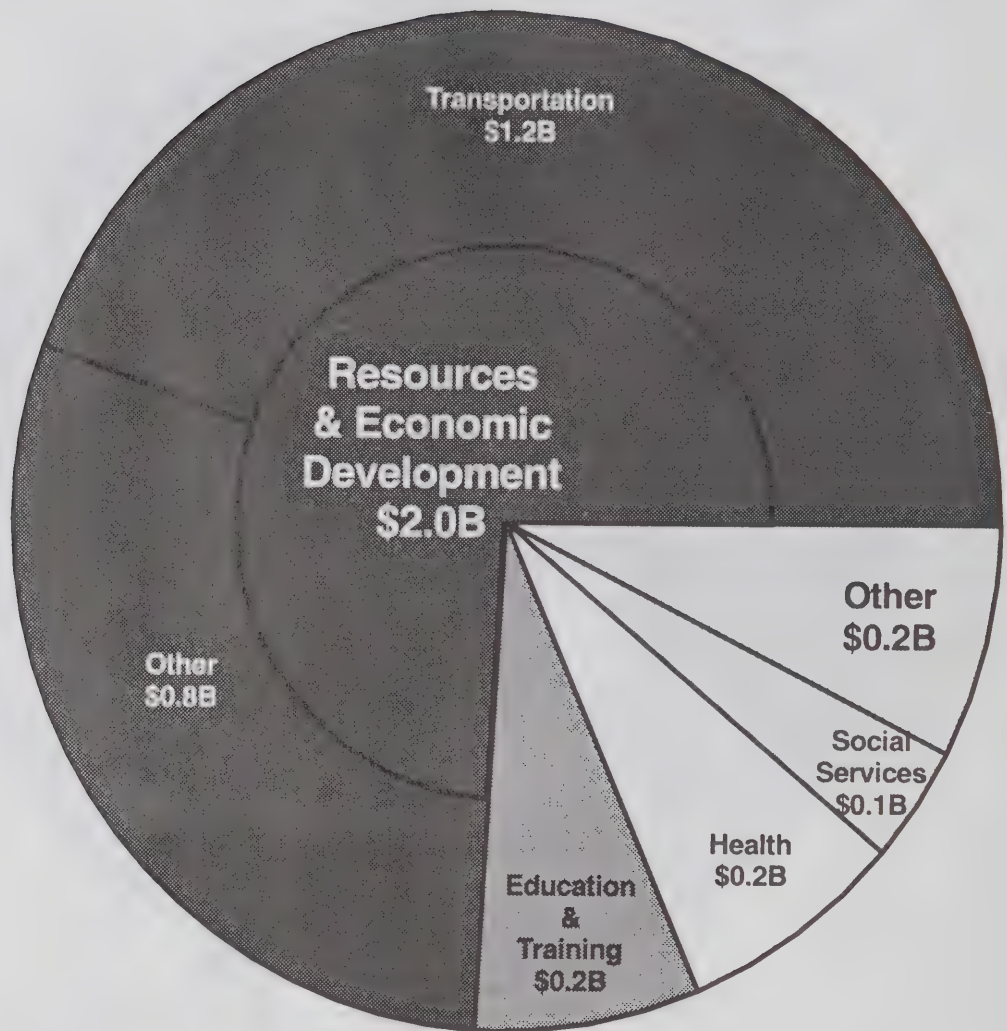


Note: 1992-93 on former modified cash basis of accounting  
PSAAB Basis

# 1996-97 Operating Expense by Sector (\$ Billion)



# 1996-97 Capital Expense by Sector (\$ Billion)



PSAAB Basis

***Economic Policies  
for  
Jobs and Growth***



## Economic policies for jobs and growth

In this budget, Ontario's government outlines three sets of measures that will improve the province's economic performance:

- ◆ it will cut the tax burden that hurt the economy and killed jobs;
- ◆ it will balance the budget by 2000-01; and
- ◆ it will restructure government to stimulate economic growth, not obstruct it.

These measures are based on the *Common Sense Revolution* plan which was outlined before the last provincial election. They also bring Ontario's fiscal and economic direction into line with what economists increasingly see as optimum public policy.

Economic growth is vital to creating jobs. These policies support growth that will lead directly to the creation of productive jobs in the private sector. Such policies must be put in place quickly, because past policy has pushed Ontario in the wrong direction on all fronts — towards overspending, overtaxation and over-regulation.

Economic policy in Ontario is catching up with Ontarians' common-sense understanding of what government can do to foster a strong economy: cut taxes, reduce red tape, and provide services efficiently. This paper documents the growing body of economic research confirming that these policies lead to stronger growth and job creation.

### Policies must work together

The three sets of policies outlined by this Budget are designed to work together, reinforcing one another, to create jobs and benefit the Ontario economy.

There are several reasons to move decisively on all three fronts now:

- ◆ A tax cut builds confidence and economic momentum, boosting private-sector growth and creating jobs.
- ◆ The stimulus of a tax cut will cushion the impact of government's cost-saving measures.
- ◆ The tax cut will do the most good if delivered early, while there is still slack in the economy, because it encourages quicker re-employment of idle resources.
- ◆ International evidence shows that one characteristic of those governments that have been most successful at reducing their debt was early and significant spending reductions; countries that tried to reduce debt through tax increases and minor spending reductions were generally unsuccessful.

***Economic  
policy is  
catching up  
with  
common  
sense in  
Ontario***

## ***Government that's too large stifles growth***

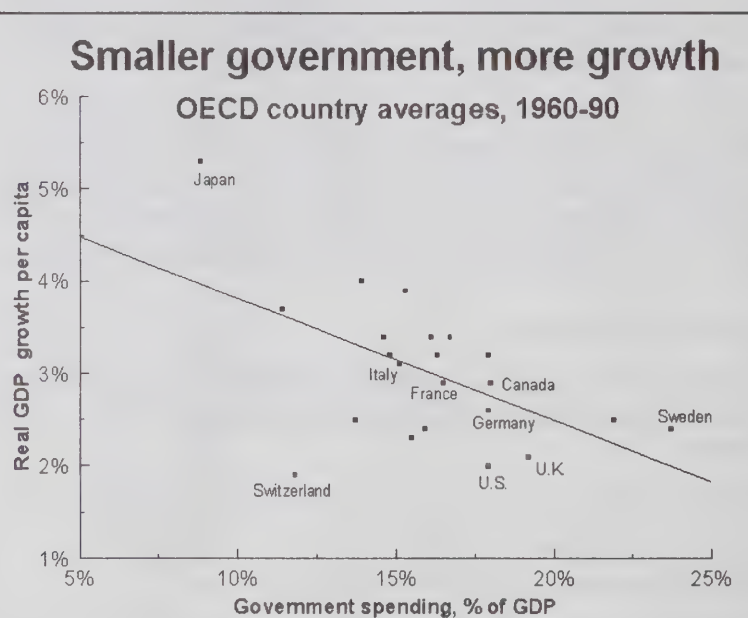
- ◆ New technologies provide opportunities to restructure government to deliver core services better while achieving large cost savings.

### **The new economics of government**

The shift toward smaller government in Ontario reflects a new understanding that letting government grow too large cuts economic growth.

The growth of government into areas of questionable value leads to high spending levels and taxpayer resistance. There is now a worldwide movement to find savings in government operations and redirect resources back into the private sector.

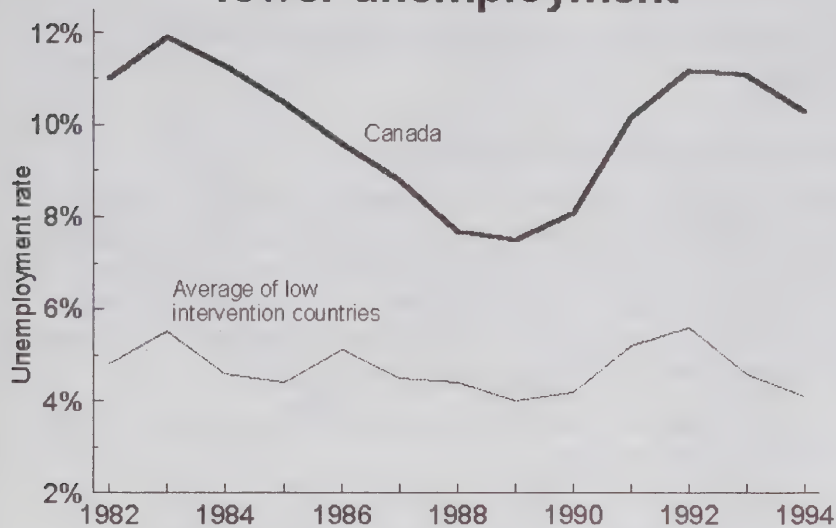
Increasing economic evidence supports this direction. In one study, covering more than 100 countries, 11 research institutes around the world measured the level and change in government economic intervention in each country.<sup>1</sup>



An index was constructed based on such indicators as the size of government, marginal tax rates, and degree of government intervention in the economy. The study found that smaller government presence in the economy was closely associated with stronger economic performance.

As well, unemployment rates are lower in countries with lower intervention and more "economic freedom" as defined by the study.

## Less intervention means lower unemployment



Other research supports the notion that too much government spending can hamper growth. A recent historical study<sup>2</sup> looked at the impact of the growth in public spending in industrialized countries.

The strongest performers in social and economic terms were not those with the largest government presence in the economy. On the contrary, economies with the smallest increases in public spending since 1960 are more innovative and efficient than those where spending grew faster. One reason appears to be that those countries have not had to increase taxes as steeply to pay for the growth of government.

These findings strongly suggest that a major task of government in the 1990s is to focus on the core services that taxpayers value most, and to stop delivering those that add little or no value.

### Potential for cost savings

Questions about the size of government are necessarily linked to efficient use of resources in the public sector. Without the discipline of market forces, it is difficult to ensure that public services are delivered efficiently.

Through the late 1980s and early 1990s, government in Ontario extended its reach into activities of little value to most taxpayers. Some were outright damaging to economic growth. Ending unneeded activities and doing the rest more efficiently will save tax dollars — and open the door to a stronger economy, more jobs and lower taxes and deficits.

The evidence leads to the following conclusions:

***Too many  
activities of  
limited value  
to taxpayers***

***Ontario will  
return to the  
top economic  
ranks***

- ◆ Reducing government's share of the economy increases economic growth.
- ◆ Ending unneeded activities by government allows the private sector to create more jobs.
- ◆ Delivering core services more efficiently saves tax dollars.

**Recent performance below potential**

Following this prescription will help Ontario to rejoin the ranks of North America's top economic performers. Despite a well-educated workforce, central location in a rich economy and sophisticated industrial base, Ontario under-performed the rest of the continent during the 1990s. The cause can be traced to the high spending, high taxes and high deficits of previous governments.

- ◆ Growth between 1990 and 1994 was the worst since the Great Depression.
- ◆ The number of people working in the province at the end of 1994 was lower than it was at the beginning of 1990. This is the only five-year period since the 1930s that this has happened.

While the early 1990s was a period of economic turbulence for all of North America, several factors deepened the impact on Ontario. As Canada's most industrialized province, Ontario faced a more difficult adjustment to increasing economic globalization.

A series of provincial policy decisions exacerbated Ontario's problems. The provincial government had grown steadily in the late 1980s, boosting provincial debt and tax levels; and when the economy contracted sharply in the early 1990s, government spending did not. Its share of GDP rose, financed by high deficits and tax increases.

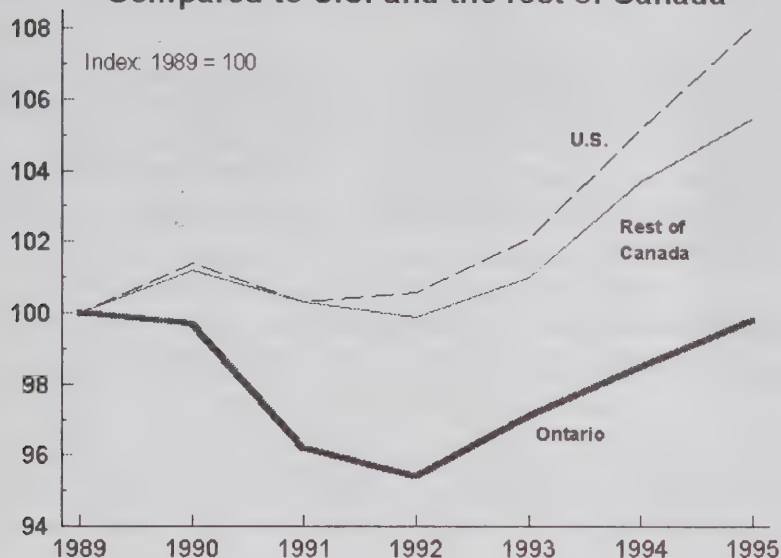
The resulting inflationary pressures pushed interest rates higher and made it harder for Ontario's private sector to exploit opportunities offered by newly lowered trade barriers.

Provincial income tax rates were raised repeatedly: Ontario's basic tax rate rose 7 percentage points between 1988 and 1993, compared to an average of only 2.8 percentage points for other provinces.<sup>3</sup> In addition to increasing the basic rate, the income surtax was raised.

At the same time, harmful labour market policies such as increases in the minimum wage threw up barriers to private-sector growth. If jobs in Ontario had grown over this period at the same rate as in the other provinces and the United States, there would be a quarter of a million more people at work.

Based on its human and physical resources, the Ontario economy has the potential to produce \$25 billion a year more in economic output than it is producing today, providing many hundreds of

## Ontario's job growth lagged Compared to U.S. and the rest of Canada



thousands of additional jobs and higher standards of living. Clearly, however, policies of previous governments have worked against growth by:

- ◆ allowing government spending to grow unchecked;
- ◆ increasing taxes to pay for government's growth;
- ◆ tripling the provincial debt, because tax increases alone were not enough to pay for spending; and
- ◆ imposing direct barriers to job creation.

This Budget, like other actions taken by the government in the past 11 months, draws on economic and fiscal policies that will let Ontario make use of its full potential.

### ***Finding savings and cutting taxes***

International studies show that when countries need to reduce deficits, significant cost savings in government operations prove more successful than small spending reductions over many years.

OECD governments which sharply cut their spending and deficits enjoyed a resulting boost to competitiveness, private-sector confidence and spending that completely offset the economic drag.<sup>4</sup>

Finding the necessary savings as soon as possible underlines the government's commitment to restoring fiscal balance. Coupling this action with tax cuts is a further signal of a dramatic change in direction. The result is a rapid improvement in private-sector confidence and spending, which shortens the time the economy takes to adjust to reduced government spending.

***Policies will  
let Ontario  
grow to its  
potential***

***Economic  
growth  
strongly  
linked to  
tax cuts***

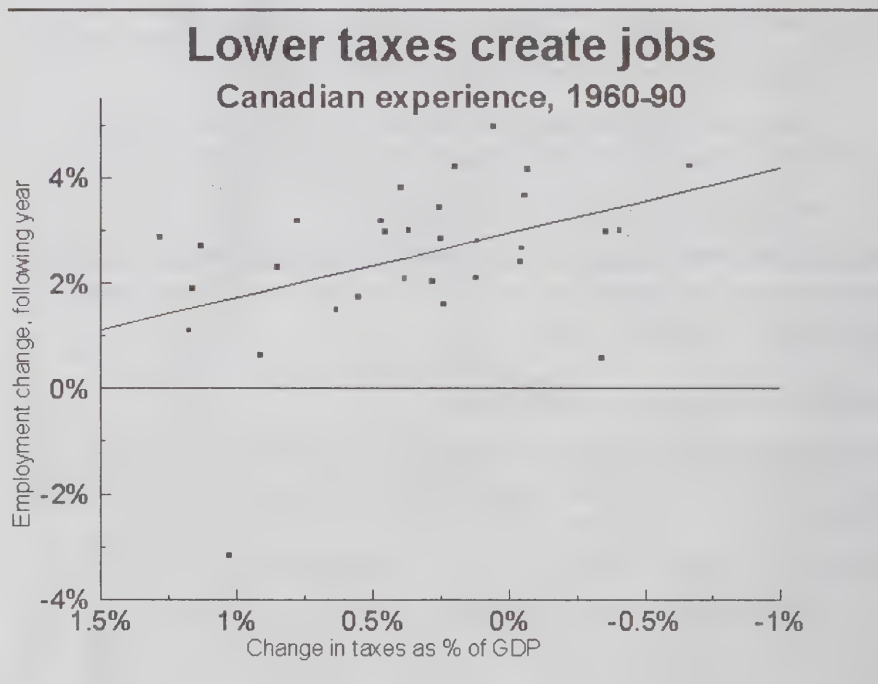
Moreover, cutting direct taxes on households — of which personal income taxes are the main form — is the most successful tax measure to take in concert with spending cuts, according to a recent study.

The authors of the study, which looked at the experience of 20 OECD countries in their attempts at lowering the government debt-to-GDP ratio,<sup>5</sup> concluded that successful debt reduction relied on finding savings at all levels, including transfer payments and direct operating expenditures. Unsuccessful attempts to reduce debt relied primarily on increases in taxes.

***Jobs and economic growth through tax cuts***

This Budget outlines a three-year plan to reduce personal income taxes.

Numerous empirical studies have found that economic growth is strongly linked to tax cuts.<sup>6</sup> This cut in personal income taxes — the largest in Ontario's history — will give consumers more money to spend, and will stimulate investment and boost productivity to a degree unmatched by any other kind of fiscal action. An income tax cut not only increases the demand for goods and services, it also increases the economy's capacity to produce those goods and services.



A cut in personal income tax rates will help Ontario's economy and create jobs by:

- ◆ Putting more money into the hands of consumers. Ontario's recent economic growth has been driven mainly by its strong export performance. In order for suppliers of domestic goods and services to benefit,

consumers must have more confidence and higher take-home pay. A tax cut gives them both, especially when coupled with measures that underline the government's commitment to ending deficits.

- ◆ Allowing consumers to pay down debt more easily. Combined with lower interest rates, this lightens debt burdens considerably and will allow people to increase consumption.
- ◆ Giving a break to small business. Hit by high taxes and over-regulation in the early 1990s, small business was forced out of its usual role of creating jobs. Cutting taxes gives entrepreneurs more incentive and more after-tax dollars to reinvest in their businesses.
- ◆ Encouraging highly educated workers to stay in Ontario after their training. These people will now have more reason to continue working in Ontario, building industries that can compete internationally.

***Consumers, businesses, workers will all benefit from tax cut and new jobs***

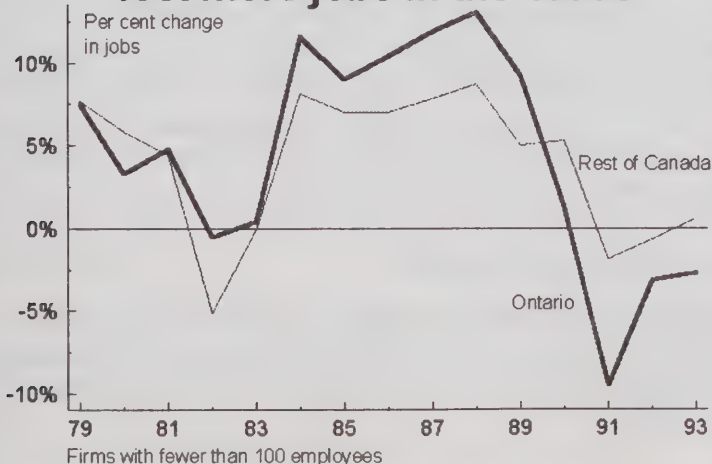
### **Benefits for small business**

Small business drove job creation in the 1980s, but short-sighted government policies kept this important sector from playing its usual role in the early 1990s.

Throughout the 1980s, small businesses grew faster in Ontario than in the rest of Canada, but this situation was reversed in the recession of the early 1990s.

Within Ontario, the performance of small firms compared to large firms suffered a reversal. In the recession in 1991 and 1992, small business employment fell more than overall employment in percentage terms. A series of Ontario government measures

### **Ontario's small employers lost more jobs in the 1990s**



***Entrepreneurs  
will be more  
willing to  
start or  
expand firms***

particularly hurt this sector: the new Employer Health Tax, higher personal income taxes, new corporate filing fees, and higher minimum wage rates.

In sharp contrast, between 1985 and 1989, 790,000 of the 982,000 net new jobs created in Ontario were in firms with fewer than 100 employees. Even during a deep recession in the 1981 to 1984 period, when employment in large firms dropped by 130,000 jobs, employment rose by 193,000 in the small firms.

Small businesses often depend on the reinvested earnings of their owners for capital, so lower taxes will contribute both to increased investment in existing businesses and to more new business formation. There will be an increased willingness by entrepreneurs to innovate and take risks, because of the prospect of keeping a larger share of earnings.

The cut in personal income tax, combined with other measures to improve labour market conditions, will help to return small business to its role of leading job creation.

***Benefits for skilled workers***

Before this tax cut, Ontario's marginal personal income tax rate for incomes over \$67,000 a year was second only to British Columbia's among Canadian provinces, and higher than that of any U.S. state.

High income-earners tend to be those in whose education the public has invested the most. When they leave, the economy loses the benefits of their skills and government may lose the tax dollars it would otherwise get as a return on the investment in their education. A tax cut will encourage more of these workers to stay in Ontario and return the benefits of their training. It will also make it easier for businesses here to attract workers with scarce skills from outside Ontario.

***Benefits for competitiveness***

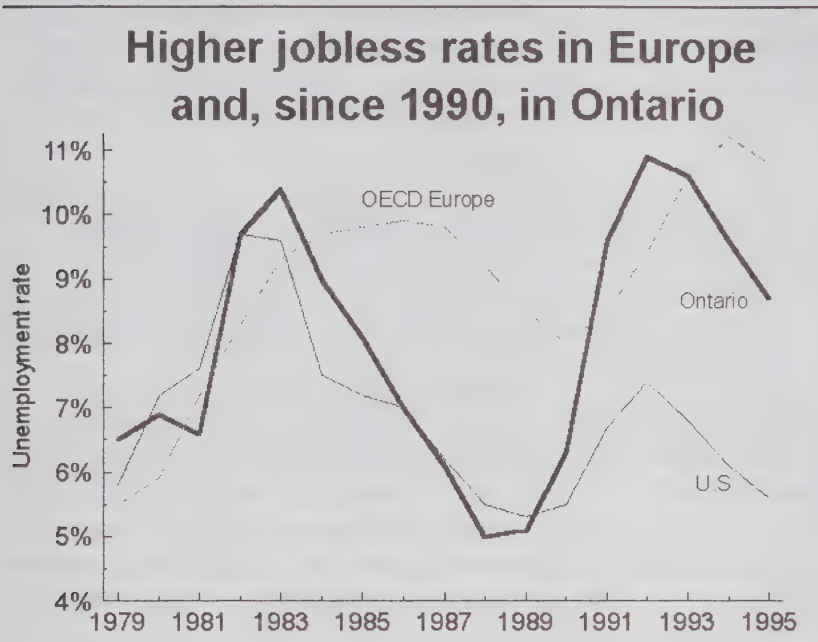
Higher income taxes can also increase labour costs, since workers must raise their money wages if they are to maintain their take-home pay. Higher labour costs make the economy less competitive, ultimately costing jobs. Empirical studies using U.S. data have found that employers faced higher labour costs in states with higher tax burdens.<sup>7</sup> A Canadian study also found that, in unionized sectors, employers end up paying a significant proportion of tax increases through higher wages.<sup>8</sup>

***Strengthening the tax cut's benefits***

While an income tax reduction is the single most effective action to boost both near-term job creation and long-term productivity growth, its impact is complemented and strengthened by other measures the government is taking.

### ***Lifting the barriers to job creation***

In the late 1980s and early 1990s, the Ontario government introduced several policies that increased the cost of hiring workers and made the labour market less flexible. In Europe, where such policies have been in place longer, the result has been persistently high unemployment rates compared to less restrictive economies. A similar impact on Ontario is evident from the gap which opened between U.S. and Ontario unemployment rates in the early 1990s. In the past several months, the Ontario government has moved to eliminate these barriers.



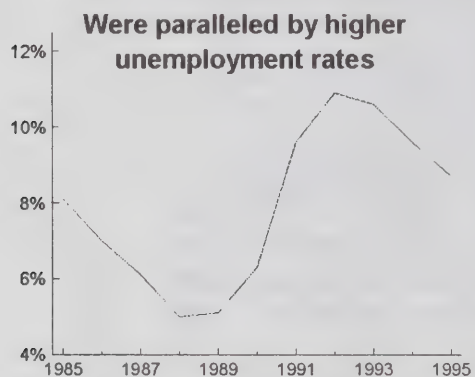
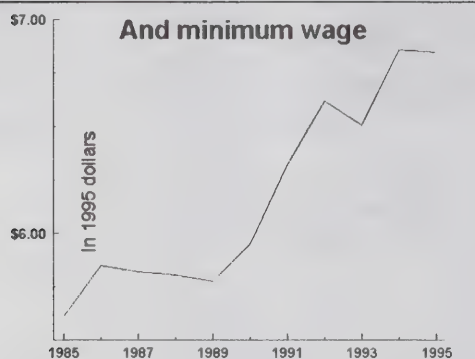
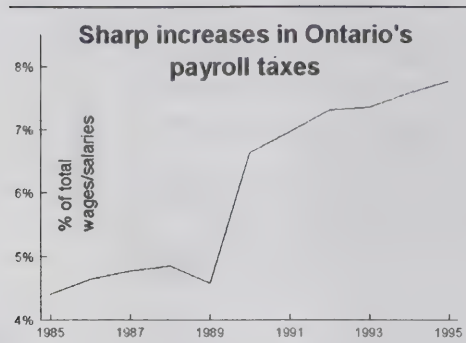
Bill 7 represented the first step in restoring a balance between unions and employers, making Ontario a more attractive location for businesses to invest and create jobs.<sup>9</sup>

Payroll taxes rose steeply over the past few years. These are particularly harmful to employment, as they are a direct tax on jobs. The increases came mainly from the federal level, but a previous Ontario government also contributed by introducing the Employer Health payroll tax at the beginning of 1990. In this budget, the government is eliminating the tax on the first \$400,000 of payroll.

Increases in the minimum wage, which rose 19 per cent in real terms between 1989 and 1994 while average real wages stayed flat, also cost jobs for those who needed them most, including young people looking for the first job that would be vital to their work force experience.<sup>10</sup>

Although the increases were aimed at helping the working poor, economic studies show that these are the people hurt most by it, because it prevents many of them from getting jobs. Combined with high social assistance benefits, this increases welfare dependence and keeps people out of the workforce longer.

***Rolling back  
payroll taxes  
to create  
more jobs***



A study that compared the impact of social assistance benefits in different provinces found that higher benefits were associated with lower labour force participation rates.<sup>11</sup>

High welfare benefits make social assistance recipients better off financially, in many cases, than if they were working. For example, before the social assistance rate reductions implemented in 1995, a single parent with two children would have needed a full-time job paying more than \$10 an hour to earn the equivalent of what she or he received from social assistance.

The figure would have been even higher when other cash and in-kind benefits from the provincial and federal governments were taken into account. These were serious disincentives to work.

In addition to other reform measures aimed at breaking the cycle of welfare dependence, the province has increased the level of earnings recipients who work part-time can keep without penalty, allowing them to earn back the difference between the old and new welfare benefit rates.

#### ***Other benefits for the labour force***

Lower tax rates and other government measures outlined in this Budget will provide people with an increased

incentive to join the pool of those available to work — just as high taxes and other disincentives can discourage participation in the labour force.

Steady growth in the labour force participation rate<sup>12</sup> in Ontario was broken in 1990. The decline was much larger than can be explained by the recession, and it was greater in Ontario than in the rest of Canada.

Labour force participation is important even when unemployment is high. There are always new jobs being created, but some are filled slowly because the right candidate can't be found immediately. The larger the pool of people available to work, the faster jobs are created.

When taxes on both payrolls and earnings are high, workers and employers have an incentive to go "underground." This may explain some of the drop in labour force participation since 1990, a possibility supported by a strong statistical link between higher tax levels and greater use of cash in the economy,<sup>13</sup> particularly during this period. Reducing personal income and payroll taxes should help to reverse or slow this movement. So will the government's emphasis on finding cost savings and making its operations more efficient: Surveys show that a perception that governments waste tax dollars is a prime motivation for tax evasion.<sup>14</sup>

Policies that discourage people from looking for work tend to raise the wage structure and further discourage job creation. The non-inflationary unemployment rate becomes higher, and the Bank of Canada is more likely to raise interest rates.<sup>15</sup>

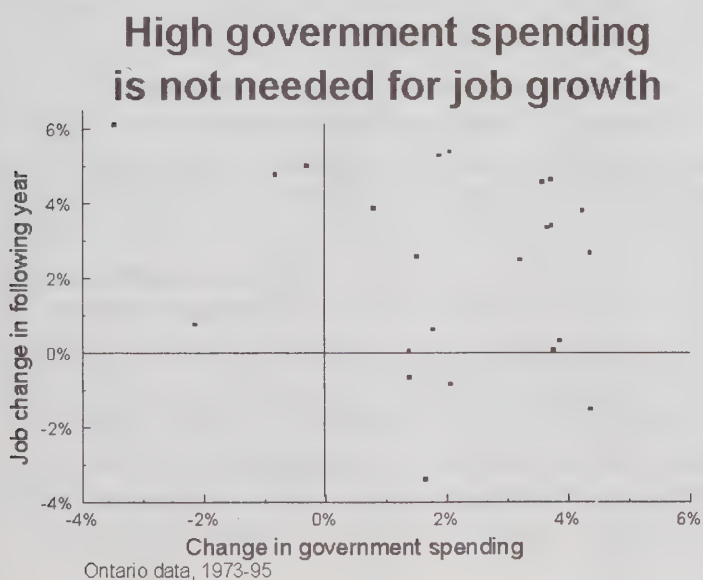
### ***Balancing the books to build confidence***

Ontario's job growth significantly underperformed the rest of Canada in the early 1990s, in spite of large increases in deficit-financed government spending. Some would claim that employment would have been even weaker without this government spending.

However, new research shows the opposite — that high spending hurts jobs.<sup>16</sup> This is because people have come to realize that government deficit spending today usually translates into higher taxes in future.

They therefore reduce spending to offset much of the increase in the government's deficit. It is likely that business investors also fear higher taxes in future, putting a damper on their investment plans. The conclusion is that an increase in government spending may reduce consumer spending and business investment, worsening a recession.

***No link seen  
between  
spending,  
job creation***



Ontario's own historical experience also refutes the notion that higher government spending creates jobs. Each data point in the figure below represents the change in real spending on goods and services by all levels of government in a year and total job growth in Ontario in the following year.

This historical experience shows that there is no statistical correlation between government spending and changes in employment. In four cases, reduced government spending in Ontario was followed by reasonably strong employment growth; just as often, increased spending was followed by job losses. Growth in government spending is clearly not vital to job creation. Other factors, such as lower interest rates, tax cuts, or greater consumer confidence, can allow the economy to expand strongly in spite of weak or negative government spending growth.

### ***Deficit reduction boosts confidence and growth***

Canadian real interest rates have been high by historical standards since 1988. Initially, the reason was the Bank of Canada's tight monetary policy, aimed at lowering inflation. The lasting benefits of low inflation accrue through lower interest rates only over the long run, as investors become confident that inflation is under control.

In the case of Canada, increased investor confidence has been delayed by persistent government deficits, which called into question the sustainability of low inflation.

Bank of Canada Governor Gordon Thiessen has noted that over the past year governments in Canada have taken major steps in sorting out their budgetary and debt problems, which has helped to bring down interest rates.<sup>17</sup>

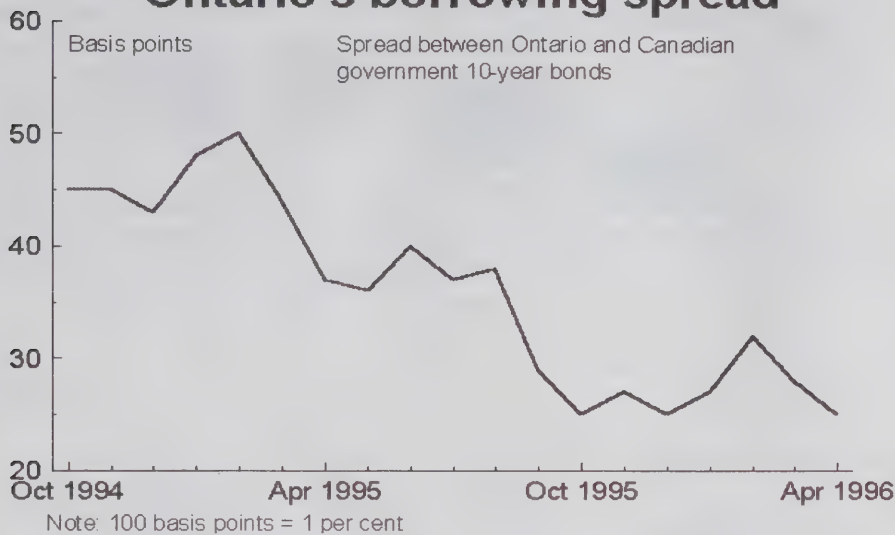
Canadian treasury bill interest rates have recently been lower than those in the United States, the first time since 1983 that this has occurred for more than a few days at a time.

Commentators agree that this is due in large part to higher international confidence in the performance of Canadian governments, including the Ontario Government. As the largest province, Ontario's fiscal performance is especially important to international investors.

That same investor confidence appears to have narrowed the spread between the yields on Ontario Government and federal government bonds in both Canada and the United States. The premium of Ontario over Canadian and U.S. government borrowing rates was recently at its lowest level since 1990, when Ontario had a AAA debt rating.

Progress on deficit reduction is clearly boosting international confidence, bolstering the Canadian dollar. The measures Ontario is taking will allow it to grow more strongly without inflationary pressures.

## Investor confidence narrows Ontario's borrowing spread



These factors will allow the Bank of Canada to ensure that interest rates remain low. This in turn will reinforce economic growth in Ontario. Short-term interest rates have fallen about 3 percentage points compared to a year ago. Each sustained percentage point reduction in interest rates creates about 25,000 jobs in Ontario and boosts GDP by about 1 per cent after two years.

***Interest-rate  
fall of 1 per  
cent creates  
25,000 jobs***

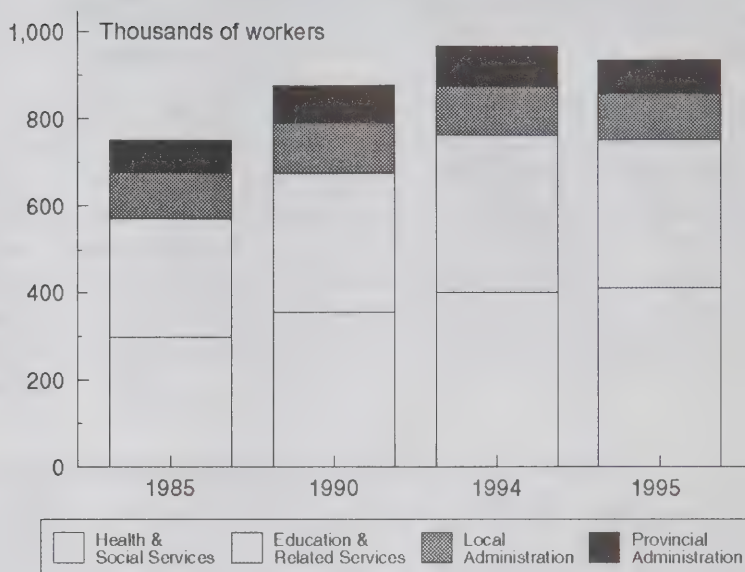
### ***The time to reshape government is now***

Technology is changing government fundamentally, just as it is changing all other sectors in the economy. New technologies make it possible for governments to provide services in new and more efficient ways, such as "one-stop shopping" for business registrations. They allow various public services to be priced more realistically and fairly than they have been in the past. And they create entirely new demands for government goods and services.

At a more fundamental level, technological change is redefining the nature of public goods, allowing certain goods and services that were previously provided by government to be produced by the private sector. Demographic shifts should also push government to re-think the services it provides.

Ontario has been slow in addressing the need for government restructuring created by technological and demographic changes. One measure of this is employment. The Ontario public sector accounted for 39 per cent of total job growth in Ontario between 1985 and 1994, increasing its share of total employment from 16 per cent to 19 per cent.

## Employment in Ontario's broader public sector



***Must act  
quickly to  
restructure  
public sector***

The costs and complexities of government have gone up sharply since the early 1980s, but the benefits to taxpayers have not. Bringing costs into line with benefits will save tax dollars and make the economy work better.

There is widespread agreement that governments in Canada should and could be smaller and more effective, so that core services are protected.

The government's approach to restructuring is based on the need to act quickly, to send a strong signal that will increase business and consumer confidence. Like other jurisdictions, it recognizes the need to address its own, as well as transfer partners', spending. And it aims to find savings in order to provide quality services in line with what Ontarians need now and in future.

Since coming to office, the government has announced that it will find savings throughout its operations. It is also changing the way government organizes its activities, by requiring ministries to draw up business plans that explain how priorities will be met.

Restructuring also involves asking whether programs and services could be delivered better and more cheaply by the private sector, or by another level of government. For those services which government retains, restructuring involves finding greater efficiencies through better technology, better organization, and plain common sense.

Private businesses, like other taxpayers, will benefit directly from these improvements, as well as from the overall reduction in costs that follow from smaller government.

## Policies that support growth

Ontario's government, in this budget and its other measures, has introduced a set of policies that aims to promote economic growth and job creation. The speed with which it has acted on several fronts responded to a deterioration in the province's fiscal and economic situation that called for immediate action. It also reflected the way in which the policy measures are designed to reinforce one another, amplifying the gains that each might have achieved alone.

It is the impact of everything Ontario is doing — cutting taxes, balancing its books, and reshaping government — that together will pay off with strong economic growth and job creation.

### Notes:

- 1 *Economic Freedom of the World, 1975-1995*, published in Canada by the Fraser Institute (Vancouver, 1996).
- 2 V. Tanzi and L. Schuknecht, "The Growth of Government and the Reform of the State in Industrial Countries," (IMF Working Paper, December 1995).
- 3 Not including Quebec. The nature of the tax system in Quebec, which does not take part in the federal tax collection agreement, makes comparison with that province difficult.
- 4 Francesco Giavazzi and Marco Pagano, "Non-Keynesian Effects of Fiscal Policy Changes: International Evidence and the Swedish Experience." (Cambridge, Mass: National Bureau of Economic Research Working Paper No. 5332, November 1995).
- 5 Alberto Alesina and Roberto Perotti, "Fiscal Expansions and Adjustments in OECD Countries," *Economic Policy*, October 1995.
- 6 This literature is surveyed by Karl Habermeier and Steven Symansky, "Fiscal Policy and Economic Growth," (International Monetary Fund Occasional Paper No. 125, 1995).
- 7 Martin Feldstein and Marian Vaillant, "Can State Taxes Redistribute Income?" (National Bureau of Economic Research Working Paper No. 4785, 1994); and Sally Wallace, "The Effects of State Income Tax Differentials on Wages," (November 1993), 23 *Regional Science and Urban Economics* 611-628.
- 8 Douglas Auld and David Wilton, "The Impact of Progressive Income Tax Rates on Canadian Negotiated Wage Rates" (May 1988), 21 *Canadian Journal of Economics* pp. 279-284.
- 9 For example, Peter Cramton and Joseph Tracy, in a study called "The Use of Replacement Workers in Union Contract Negotiations" (National Bureau of Economic Research Working Paper No. 5106) discuss the impact of such measures on labour costs.

- 10 Michael Shannon and Charles Beach, "Distributional Employment Effects of the Ontario Minimum Wage Proposals." *Canadian Public Policy*, 1995, No. 3.
- 11 D. Allen, "Welfare and the Family: The Canadian Experience," *Journal of Labour Economics*, January 1993, pp. S201-S223.
- 12 Defined as the percentage of the population either working or actively looking for work.
- 13 Peter S. Spiro, "Estimating the Underground Economy: A Critical Evaluation of the Monetary Approach," *Canadian Tax Journal* 42 (1994 No. 4) pp. 1059-1081.
- 14 D. Francis, "High taxes turn Canadians into cheats," *Financial Post*, June 23, 1995, p. 19.
- 15 Stephen S. Poloz, "The Causes of Unemployment in Canada," (Bank of Canada Working Paper 94-11, November 1994).
- 16 Paul R. Masson, Tamim Bayoumi, and Hossein Samiei, "Saving Behaviour in Industrial and Developing Countries," Staff Studies for the *World Economic Outlook* (Washington: International Monetary Fund, 1995).
- 17 Bank of Canada, *1995 Annual Report*, February 29, 1996, p. 6.

***Open and  
Accountable  
Government***



# Open and Accountable Government

In early November 1995, after three months of study, the Ontario Financial Review Commission presented Finance Minister Ernie Eves with 55 recommendations to make government in Ontario more open and accountable.

As the Commission said in its report, *Beyond the numbers: A new financial management and accountability framework for Ontario*:

*The Commission believes that competent and hard-working public servants throughout the system are trying to find more efficient ways of organizing and doing their work, and are trying to build on what they have learned to improve performance in future.*

To improve results, and in line with its mandate, the Commission made recommendations in three broad areas: planning, financial reporting and accounting, and Crown agencies.

## Quick action on recommendations

Three weeks after receiving the Commission's final report, the government announced in the November Fiscal and Economic Statement that it was acting on several recommendations immediately. As a result, it would:

- ◆ use the same reporting standards for all of its budgetary reports and updates, the standards set by the Public Sector Accounting and Auditing Board (PSAAB);
- ◆ adopt a prudent planning framework, using cautious forecasting, to ensure that deficit targets were met;
- ◆ set out longer-term deficit and debt-reduction targets;
- ◆ establish a contingency fund to cushion against unforeseen economic changes, starting with the 1996 Budget.

The November Statement promised that this Budget would address the remainder of the Commission's recommendations.

*The government has accepted 52 recommendations, of which it has already implemented 25, and is working on implementing 27 others. In three instances, legislative change is needed for implementation.*

A listing of each recommendation follows. The government's response is indicated in italic type after each recommendation.

# Recommendations and responses

## I. Planning

### A. Framework for fiscal planning

I.1 That government adopt a prudent planning framework which:

- encourages cautious forecasting and better expenditure planning;
- monitors results for the purpose of taking any corrective action that is needed; and
- includes provisions for unexpected changes in its economic outlook

in order to ensure that it meets or exceeds its deficit and debt reduction targets in the most effective and efficient way.

*The government has taken immediate action to create a prudent fiscal planning framework:*

- *For planning and financial reporting purposes, the Province has adopted the guidelines set out by the Public Sector Accounting and Auditing Board (PSAAB) for reporting in the Budget and Public Accounts.*
- *Starting with this Budget, a reserve is included in the Provincial deficit outlook to accommodate negative unforeseen changes in economic conditions which may affect the fiscal plan.*
- *As well, the fiscal plan is based on prudent economic assumptions to provide additional assurance that deficit targets will be met.*

I.2 That government present a three-year business plan as part of its annual Budget. This business plan should:

- outline goals and priorities in enough detail that ministries can use it as a basis for their business planning, as outlined in Recommendation I.16 below;
- explain government's targets for effective and efficient performance and how it will measure progress towards them;
- report on progress toward established goals and explain the reasons for changes from its previous plan; and
- outline the revenue, expenditure and economic projections for the upcoming year and the following two years.

*This budget contains a five-year plan to balance the budget. It also outlines specific fiscal performance measures, a three-year economic projection and a two-year fiscal forecast. It gives interim results for the fiscal year just ended. It provides a 10-year historical performance comparison of key economic and fiscal data.*

*The government will report in future budgets on progress toward its plan.*

## **B. Better fiscal management and revenue forecasting**

- I.3 That government return to the practice of tabling its Budget, which would now include a business plan, before the start of the fiscal year.

*The Commission suggested a thorough review — including examination by a Legislative committee — of measures to speed approval of spending authority. Government will consider the legislative committee's recommendations on this important goal, following the review.*

- I.4 That government provide, in its annual Budget, deficit targets (and underlying fiscal forecasts) for the upcoming and following two years, and that it measure itself against these targets in the subsequent Budget and other reports to the people of Ontario.

*The 1995 Fiscal and Economic Statement set out annual deficit targets to balance the budget by the year 2000-01. This budget provides annual deficit targets for each of the next five years as well as a two-year forecast of Provincial revenues and expenditures.*

*Fiscal projections beyond this time horizon are subject to significant variation due to changes in the economy and other external factors. The government will continue to develop its capacity to provide reliable and meaningful fiscal forecasts for future years.*

*The government will report annually in the Budget and measure itself against planned deficit targets.*

- I.5 That government provide in its annual Budget a longer term view of its debt reduction targets, and that it measure and report on its progress towards those targets in its subsequent Budget and other reports.

*In the 1995 Fiscal and Economic Statement, the government outlined a realistic and workable Balanced Budget Plan to eliminate the deficit by the year 2000-01. At that time, the government clearly outlined the debt levels associated with this deficit reduction plan.*

*Future budgets will report on debt reduction through the Ontario Opportunities Fund created in this budget.*

- I.6 That the Budget contain commentary on socio-economic trends that are likely to have a significant longer-term impact on the Province's fiscal health, and outline measures that may be needed to deal with those.

*Budget paper B, Jobs and Growth, and paper D, Economic Policies for Jobs and Growth, discuss important trends affecting Ontario's fiscal and economic health.*

- I.7 That government's fiscal forecast be biased towards the cautious end of the range of forecasts that are consistent with its economic forecast.

*The revenue forecast is deliberately cautious. The outlooks for individual tax revenues reflect that caution. In the case of the provincial income tax outlook, the forecast is developed using cautious assumptions (e.g., slow growth in average tax rate, strong RRSP growth).*

- I.8 That the Budget set out a contingency fund exclusively to cushion fiscal targets against the impact of negative unforeseen economic changes. Government should apply any part of the fund which has not been spent by year-end to reducing the deficit and debt.

*Starting in 1996-97, the Provincial deficit will be calculated to include a reserve to protect against the impacts of unforeseen and adverse economic changes on the fiscal plan. Any unused funds in the reserve at year-end would be used to reduce the deficit and debt.*

- I.9 That, where there is disagreement or uncertainty over the methodology for calculating future federal transfer payments, Ontario adopt for the purposes of fiscal planning the most prudent methodology.

*Where changes to federal payments are expected in the future, the Province will assume a prudent forecast from among the range of options available to the federal government.*

- I.10 That the Ministry of Finance each year collect and evaluate a list of contingent expenditures and other latent costs throughout government that might increase spending.

*The government has adopted recommended guidelines for setting up provisions for costs resulting from known activities. It is reviewing how best to approach possible costs of a more contingent nature, as addressed by this recommendation.*

*Ontario is working with other governments in Canada and the accounting/auditing profession to develop accounting standards specifically for such costs.*

- I.11 That government use significant unanticipated revenues to reduce the deficit and debt, and that this be clearly disclosed in financial reporting.

*As part of the government's Balanced Budget Plan, any unanticipated revenues or unused reserves, beyond what is required to meet the annual deficit target, will be incorporated into the government's overall strategy to balance the budget by the year 2000-01. These transactions would be fully disclosed and reported in the Budget.*

- I.12 That the Ministry of Finance focus its efforts to improve its revenue forecast on getting better information about its main sources of revenue: personal income tax, corporations tax and retail sales tax.

*In developing new computer systems for revenue collection, the Ministry will also take into account the needs of revenue forecasters to have access to timely data on the economy's performance.*

- I.13 That the Ministry of Finance take steps to create a fuller and more open system of personal income-tax information sharing with the federal government, and pursue as a matter of urgency its continuing requests for monthly information on source deductions.

*The Ministry has successfully obtained additional provincial income tax information from the federal government, including information on source deductions at the federal level. Ontario Finance staff have strengthened contacts with federal forecasting staff.*

- I.14 That forecasts of revenues from any new non-tax initiative be supported by a prudent and realistic business plan.

*Revenue forecasts from such initiatives are carefully scrutinized before being incorporated into the revenue outlook, to ensure that they are based on sound and prudent assumptions consistent with the overall cautious approach used in the fiscal plan.*

## **C. Business plans and performance measurement**

- I.15 That the government adopt an integrated framework for ministries' activities that better links planning, monitoring, reporting and evaluation to improve the management and accountability processes.

*The government has adopted a business planning approach which ensures that ministries undertake a rigorous review of all activities. The initial results of the business planning process, including ministry core businesses and key program reductions for 1996-97 and 1997-98, were made public on April 11.*

- I.16 That, as part of the framework, each ministry:
- prepare a three-year business plan that reflects the government's priorities;

- maintain the three-year outlook by updating its plan annually before the start of each fiscal year;
- specifically address in the plan the measurement of progress towards its stated goals and reasons for changes to its previous plan;
- outline in the plan what it believes to be suitable performance measures and targets at the ministry and program level, subject to review by a Legislative committee;
- include detailed spending and, if appropriate, revenue plans for the upcoming fiscal year and estimates of these for the following two years;
- explain in its plan the delivery structure to be used, including the roles, relationships and accountability of all entities that provide service on behalf of the ministry, and provide justification for this structure; and
- provide semi-annual summaries of progress for ongoing monitoring and appropriate action to improve performance.

*All ministries have prepared business plans which are based on the government's priorities. These plans will be updated annually.*

*All ministry plans establish core businesses, key outcomes and proposed performance measures. These will be made available to the Legislature.*

*Ministry plans also contain detailed spending plans for the coming year, along with directions for the medium term. Ministry plans will enable the government to establish clear linkages between core businesses, key outcomes, ministry resources and administrative structures.*

*Ministries will engage in consultation to help determine appropriate accountability and performance measures, including specific quantitative indicators.*

- I.17 That government initiate a system of recognition and rewards in the public service to motivate effective and efficient behaviour, and remove current disincentives to such behaviour.

*The government accepts this recommendation in principle, within the goal of making government more effective and efficient, and is looking at options for such a system.*

- I.18 That the requirement for business plans, as outlined in this report, at the government, ministry, and agency level, be legislated.

*The government agrees with the intent of this recommendation and has proceeded to develop business plans which will be shared publicly after the release of the budget.*

*Under section 3 of the Management Board of Cabinet Act and section 6 of the Treasury Board Act, Management Board of Cabinet has required ministries to complete business plans.*

- I.19 That government have a review carried out with the goal of ending the current Estimates process, which is ineffective. This review, by either a special task force of the Legislature or an existing committee, should focus on an earlier and more useful debate of spending authority.

*The government will work with the Legislature towards improving its ability to effectively review ministries' spending authorities.*

- I.20 That the special review consider the following additional suggestions from the Commission:

- an appropriate committee of the Legislature, which could be a renamed and re-defined existing committee, should be given the task of reviewing each ministry business plan before the start of the three-year planning cycle it covers;
- the committee should conduct reviews on a three-year rotational cycle (that is, look each year at the plans of one-third of ministries), with attention to past and planned outputs and outcomes, and be able to recommend changes to plans;
- in looking at each plan, the committee should be able to consult with the appropriate Minister and Deputy Minister, the Provincial Auditor, and others as needed;
- the committee should look at the ministry's proposed measures and targets for performance to make sure they are appropriate, well-designed and rigorous;
- committee staff should then monitor results on a semi-annual basis, and the committee should be able to require the Minister and/or ministry staff to appear before it as required; and
- spending authority should be secured immediately after the tabling of the Budget.

*The government will work with the Legislature on these proposals. The final decision on this recommendation rests with the Legislature.*

## **II. Financial reporting and accounting**

### **A. Accounting basis and system**

- II.1 That government adopt PSAAB standards for the Budget, related spending authority and updates on the fiscal situation.

*The government adopted this recommendation on November 29, 1995 and continues to use PSAAB standards in this budget. It began reporting the fiscal updates on a PSAAB basis with the Third Quarter Ontario Finances for 1995-96.*

*Adopting PSAAB standards for spending authority as recommended by the Commission requires a further investment in financial systems and training and will require legislative change. The government is working towards adopting these changes over the next two fiscal years. As a transitional measure, a reconciliation of PSAAB to modified cash expenditures will be provided, at a Ministry level, in the Estimates for fiscal 1996-97.*

- II.2 That government adopt one financial management and reporting system for all ministries, in place of the incompatible systems currently in use.

*The government accepts this recommendation in principle and will set central standards for integrated financial reporting. As part of its review of internal administration, it will identify ways of achieving the goals outlined by the Commission.*

### **B. Financial reporting**

- II.3 That government produce an annual report consisting of:

- financial statements similar to those currently produced as part of the Public Accounts, with the addition of a column showing the Budget plan; and
- a management discussion and analysis that includes financial and economic highlights and reports on performance against the goals set in the Budget and business plan at the start of the year.

A news release summarizing the annual report should accompany its publication.

*The government will publish its Annual Report later this year incorporating the additional material requested by the Commission.*

- II.4 That government's annual report and the Public Accounts be presented no later than 120 days after the year end, but preferably within 90 days.

*The government accepts this recommendation in principle and will work over the next two years toward meeting the outlined 120-day timeframe. Achievement of this goal depends on the introduction of the financial system described in response to recommendation II.2. It will aim to report results within the 90-day timeframe as financial systems are further upgraded.*

- II.5 That government produce quarterly financial statements, on the PSAAB basis, containing for each quarter:

- an updated fiscal forecast for the year, compared to the Budget plan for the year; and
- actual results for the current year to date, compared to year-to-date actual figures for the prior year.

The second quarter should also contain a revised economic forecast for the year and outline its impact on the year's fiscal forecast, and should provide an update of the economic forecast for the next two years.

*The government has accepted this recommendation and prepared the 1995-96 Third Quarter Ontario Finances on a PSAAB basis. The quarterly financial updates take into account changes in economic conditions which affect the revenue projections.*

*Proposed changes in financial systems referred to in recommendation II.2 would permit the timely reporting of year-to-date numbers on a PSAAB basis, which is not possible now.*

### **Ontario Hydro and Workers' Compensation Board**

- II.6 That government clarify the ownership of Ontario Hydro in order to end confusion in financial reporting.

*The government accepts this recommendation in principle.*

- II.7 That government require the Workers' Compensation Board (WCB) to draw up, within the next year, a workable and credible plan to eliminate its existing unfunded liability. This plan should outline specific benchmarks at regular intervals; and the government should monitor the plan's progress to make sure corrective action is taken if it falls short of those benchmarks.

*The Honourable Cam Jackson, Minister Without Portfolio Responsible for Workers' Compensation Reform, is currently reviewing the system.*

- II.8 That the present disclosure of the Workers' Compensation Board in the notes to the financial statements in the Public Accounts be improved by expanding it to include summary disclosure of the Board's balance sheet and its statement of operations and unfunded liability.

*The government will do so, beginning with its financial statements in the 1995-96 Public Accounts.*

- II.9 That government review the current governance structure of the Workers' Compensation Board with a view to making it financially accountable, more effective, and better able to provide leadership.

*Bill 15, which received Royal Assent on December 14, 1995, introduced a new multi-stakeholder governance structure to the WCB, intended to provide more effective leadership for the organization. As well, the Bill 15 reforms place a statutory duty on the Board of Directors to act in a financially responsible and accountable manner.*

- II.10 That the investment practices of the Workers' Compensation Board be reviewed independently to assess whether return on investments is appropriate to its long-term goals.

*Bill 15 amended the Workers' Compensation Act such that the Memorandum of Understanding (MOU) between the Minister of Labour and the WCB will now require the WCB to provide the Minister of Labour, on an annual basis, with a five-year strategic plan, including a statement of investment policies and goals. On receiving this statement, the Ministry of Labour will seek Ministry of Finance advice on Board investment policies and goals.*

### **C. Accounting issues**

- II.11 That, in absence of a PSAAB guideline in a specific area, government follow, in order of authority and depending on availability:

- accepted public-sector practice;
- generally accepted accounting principles in the Handbook of The Canadian Institute of Chartered Accountants (CICA);
- guidance from the CICA's Emerging Issues Committee; or
- accepted private-sector practice in the area.

*Accepted.*

- II.12 That government continue its accounting treatment of capital assets, which is generally to expense all spending on assets in the year they are bought or built, and follow those practices in the Budget and quarterly updates until PSAAB standards deal with capital assets. If and when PSAAB standards for capital assets are issued, government should adopt them.

*The government will continue its current treatment of capital assets, as recommended, and will work with PSAAB to develop appropriate standards in this area.*

- II.13 That, when reporting the impact of restructuring that involves reducing staff, government follow the guidance of the Emerging Issues Committee of The Canadian Institute of Chartered Accountants.

*The government accepts this recommendation for 1995-96 and future fiscal years. It has accounted for the costs of decisions made during 1995-96 following the standards outlined by the Emerging Issues Committee.*

- II.14 That government recognize all expenditures, including those related to downsizing or asset write-offs, in arriving at the annual deficit. It may disclose separately these and similar non-recurring costs.

*The government accepts this recommendation and has accordingly accounted for these transactions in the preparation of the Budget, mid-term forecast and interim numbers for the fiscal year ending March 31, 1996.*

- II.15 That the proceeds of asset sales or other transactions outside the normal course of business be included in the reporting of government's annual deficit and disclosed separately from ongoing revenues.

*Accepted.*

### **III. Crown agencies**

#### **A. Service delivery**

- III.1 That government develop a management framework, based on the one outlined in the OFRC report, to determine which type of organization will deliver services most effectively and efficiently. This framework should specifically address the accountability issues that follow from any special powers the particular organization is given, and require ongoing monitoring to ensure that any special powers are justified.

Government should use this framework to decide whether the structures and operations of existing organizations need to change to improve their performance.

*The government has adopted a framework to guide decisions on the most appropriate organizational structure with which to deliver effective and efficient services.*

*The government is developing an accountability framework with elements appropriate to the organizational structure.*

*A review of the approach to the scheduling of agencies and associated accountabilities forms part of this work.*

- III.2 That when an agency is the organization used to deliver a government service, its business plans and published annual reports detail the costs and benefits of agency status. If the costs significantly outweigh the benefits over time, then government should conduct the activities through a ministry instead.

*The Government accepts both elements of this recommendation to strengthen its agencies' reporting obligations.*

*Linkages will also be built into the business planning and review processes to ensure that the cost-benefits of services provided through agencies are reviewed as part of the Estimates review. All operational agencies continue to be subject to 5-year sunset reviews.*

- III.3 That, where there are no overriding public-policy reasons for government ownership of an enterprise which could operate successfully in the private sector, the private sector carry out the activity instead.

*The Government concurs with the intent of this recommendation, and integrated it into the terms of reference for its 1996-97 planning process.*

*All agencies are currently being reviewed to determine the relevance of their mandates, and the effectiveness and efficiency of their operations. Change will be directed, where appropriate.*

- III.4 That government set out an accountability framework for all Crown agencies. The framework should require that agencies produce business plans, similar to those recommended for ministries, which set appropriate targets, report on results, and require ongoing monitoring. This framework should incorporate ongoing measurement of costs and benefits of agency status, as discussed in Recommendation III.2.

*The Government accepts these recommendations and commits to modifying the Accountability Framework which now governs agencies, boards and commissions to meet this intent.*

## **B. Accounting and accountability for existing agencies**

- III.5 That government expense, in the year they are made, any financial contributions needed to establish or continue an enterprise's self-sustaining status.

*Accepted.*

- III.6 That, when an agency is classed as an enterprise on the basis of financial projections, it update those projections annually.

*The government accepts this recommendation and will carry out reviews of projections annually.*

- III.7 That government write off, at the time of its decision, its investment in any agency that it judges to be no longer self-sustaining. The agency should then be reclassified and treated as a service organization.

*Accepted.*

- III.8 That, where an agency has both enterprise and service activities, the agency's own reporting clearly differentiate between these activities. Where it also acts as agent for government or other government agencies, the agency's financial statements should give appropriate note disclosure of its activities as an agent.

*As part of the Public Accounts process, the Ministry of Finance will direct agencies to modify their reporting to reflect separately their enterprise and service activities and their activities as agents.*

- III.9 That, when creating a new agency, government seek to give it responsibility for activities that are either enterprise or service in nature, but not both.

*The government accepts this recommendation in principle. Exception to this approach will require Management Board of Cabinet approval.*

### **C. Recommendations specific to agencies**

- III.10 That the Metro Toronto Convention Centre (MTCC), which now reports as an enterprise, provide annual updates of its business plan to support that continuing status.

*The Government will review MTCC's projections annually.*

- III.11 That updated projections and business plans use net income as defined under generally accepted accounting principles in assessing MTCC's self-sustaining status.

*The government has notified MTCC that it has accepted this recommendation, and this definition is now required.*

- III.12 That the Province show as an expenditure in its financial statements its proposed \$75 million non-repayable construction grant to MTCC when it is paid.

*The \$75 million provided to MTCC has been recorded as an expense in the fiscal year ending March 31, 1996.*

- III.13 That, when and if PSAAB adopts its proposed standards on Crown agency reporting, the Development Corporations of Ontario (DCO) be classified as a service organization.

*The government accepts this recommendation in principle. After the release of the OFRC report but before PSAAB adopted its proposed standards on Crown agency reporting, the government decided to wind down the Development Corporations.*

III.14 That the various regional agencies of the Ontario Development Corporations be combined and report as one entity.

*As noted, the government decided to wind down these corporations.*

III.15 That the Ontario Financing Authority (OFA) retain its status as an agency and that, in order to strengthen its risk-management capability, it be given greater management and administrative flexibility and add outside directors to its board.

*The government accepts this recommendation in principle. The OFA is working with outside advisors to determine how best to implement the OFRC recommendations. The results will be put forward for the government's consideration in this fiscal year.*

III.16 That the board of directors of the OFA set over-all goals that are in line with its status as a government agency, and ensure that its risk-management policies in all its activities, including managing the Province's debt and investment portfolios, are consistent with those goals. The OFA should also ensure that its risk-management and disclosure policies draw on the best practices of the financial community. The OFA's annual report should disclose its goals, policies and practices in detail, along with related targets, activities and performance.

*The government accepts this recommendation in principle. These changes will be reviewed at the time the report referred to in III.15 is presented. Changes such as the addition of external expertise to the OFA Board, and greater organizational flexibility already addressed in III.15, will help to ensure the recommendations are met.*

*The OFA will continue to review its corporate plan and annual report processes to ensure clear communication of its goals, policies, performance targets and results.*

III.17 That the Ontario Transportation Capital Corporation (OTCC) and government monitor regularly and assess at least annually OTCC's performance against projections to support its continuing status as a government enterprise, in view of the government's significant investment in OTCC and because of the uncertainty of OTCC's ultimate self-sustainability.

*The government will review OTCC's projections annually.*

III.18 That the Ontario Clean Water Agency (OCWA) show, in a detailed business plan, the measures that will be required for it to remain self-sustaining as it faces more private-sector competition in its operating activities and lessens its dependence on profits from its financing activities, which are now the source of its self-sustaining status.

*The Government accepts this recommendation in principle and has already ensured that OCWA's 1996 Business Plan includes measures to maintain and enhance its self-sustaining status.*

III.19 That government consider granting OCWA more management and administrative flexibility to allow it to operate more competitively.

*The government is currently reviewing OCWA's mandate, roles and responsibilities. This recommendation will be considered within that context.*

III.20 That the Ontario Realty Corporation (ORC), which now reports as a government enterprise, be treated as a service organization instead. It should retain its status as an agency in order to draw on outside expertise in managing the Province's real estate assets.

*The government accepts the recommendation that the ORC be treated as a service organization, and has incorporated its impact into the Budget mid-term fiscal plan and interim numbers for the year ending March 31, 1996.*

*The government is currently reviewing ORC's status as an agency.*











***“The people of Ontario want to know that tomorrow will be better than today — for themselves, and for their children.”***

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# 1997 Ontario Budget

## Budget Speech

*Investing in the Future*



**The Honourable Ernie Eves, Q.C.**  
**Minister of Finance**





# **1997 Ontario Budget**

## **Budget Speech**

*Investing in the Future*

**Presented to the  
Members of the Legislative Assembly of Ontario by  
The Honourable Ernie Eves, Q. C.  
Minister of Finance  
May 6, 1997**

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*1997 Ontario Budget: Budget Speech*  
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ISBN 0-7778-6327-8

Back cover design: Dick Derhodge

Photos courtesy of South Simcoe Public School, The Hospital for Sick Children,  
Spar Aerospace Limited, Dick Derhodge and Eric Hutton.

*Le document Budget de l'Ontario 1997 : Exposé budgétaire*  
*est disponible en français.*

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# INVESTING IN THE FUTURE

## INTRODUCTION

The Province of Ontario is on the way to a better tomorrow. The endless cycle of tax, spend and borrow is over. From the first day our Government took office, our plan has been clear: lift the burden of debt from our children's shoulders while reinvesting in priority programs like health care and education.

Under the leadership of Premier Mike Harris, our plan allows Ontarians to keep more of their hard-earned money; it invests in health care, classroom education and safe communities; it reduces the size of government and ensures that taxpayers' dollars are spent more wisely.

Between 1985 and 1995, the period Premier Mike Harris refers to as "The Lost Decade", previous governments hiked taxes 65 times, including 11 increases to personal income tax. These tax hikes did not balance the budget or create jobs. In fact, debt tripled over this period, choking Ontario's growth potential and eroding the economic health of this Province.

Our Government is turning the economy around. We recognize that all Ontarians deserve opportunity and a job, with the personal dignity and security that a job brings. To that end, we are continuing with our tax cuts to create jobs. Today I will announce a further 20 reductions, for a total of 30 tax cuts in less than two years.

We have cut government spending in a deliberate and careful way, because government was too big, too wasteful and was doing too many things that could be done better by the private sector.

We are reducing the size of governments in this province, peeling away the layers of red tape and bureaucracy. We are redefining the role of governments in Ontario to make them more accountable to taxpayers.

I am pleased to report today that our plan is working. Ontario's economy is responding with jobs and growth and, perhaps most

Investing in the  
Future

Thirty Tax Cuts in  
Less Than Two  
Years

## Renewed Confidence and Optimism

importantly, with renewed confidence and optimism. This document builds on the Budget I presented last year. It is based on sound economic and fiscal policies.

We are investing in the economy and helping Ontarians get jobs. This Budget helps small businesses get access to capital to invest in the economy and do what they do best - create jobs.

We are investing in research and development to create jobs for the future. The actions I announce today will reaffirm Ontario as one of the leading jurisdictions for new research and development in the world.

We are investing in health care because Ontarians deserve care that is second to none. Our Government is not only keeping our commitment to guarantee health care funding, we are increasing our investment.

We are investing in our classrooms, and in fairer support for child care for all working families, giving Ontario's future leaders the best start possible.

## A Better Future for our Children

We are investing in a better future for our children, for my daughter Natalie and her generation. In the words of Premier Leslie Frost, "We are laying the sure foundations for a greater and stronger Ontario".

This Budget will help secure those foundations for all Ontarians -- now and for future generations. In preparing it, I received assistance and advice from literally hundreds of Ontarians. I have considered their advice carefully and I thank them for their important contribution.

I want to thank all my colleagues, especially Premier Mike Harris, for his guidance and leadership.

I want to express my appreciation to the dedicated staff of the Ministry of Finance led by Deputy Minister Michael Gourley, to my loyal personal staff led by Louise Girouard, and to my wife Vicki and daughter Natalie for their support and understanding.

---

## BALANCING THE BUDGET AND CONTROLLING THE DEBT

### On Track for a Balanced Budget

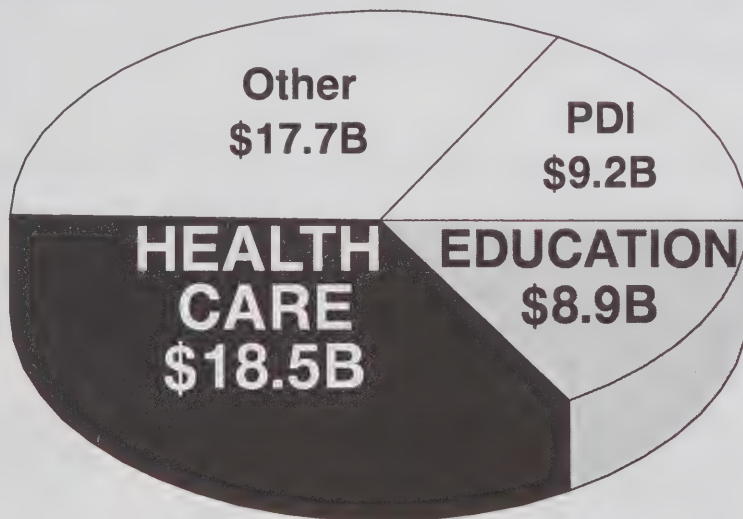
Everyone knows that when we took office in June 1995, government was spending \$1 million more every hour than it was taking in.

Thanks to our cautious and prudent approach, the deficit for the fiscal year 1996-97 will be \$7.5 billion, an improvement of \$710 million over the 1996 Budget Plan.

Improving on our  
Deficit Target

#### Support for Priority Programs, 1997-98

Total Expense: \$54.3 Billion



For fiscal year 1997-98 our Budget Plan projects a deficit of \$6.6 billion. The deficit will be reduced further to \$4.8 billion next year or some 58 per cent less than the deficit we faced on taking office.

Our Balanced Budget Plan will ensure that the deficit is eliminated by the year 2000-01.

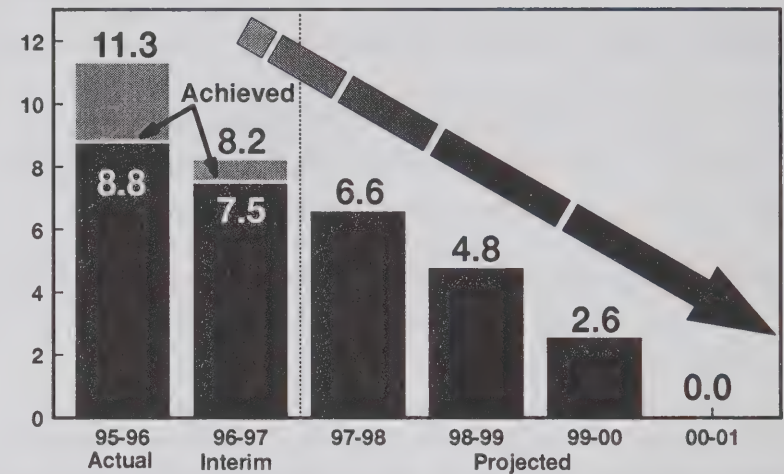
We have turned the corner toward a balanced budget.

Turning the  
Corner Toward a  
Balanced Budget

## Ontario's Balanced Budget Plan on Track

Medium Term Deficit Targets

\$ Billions



Note: The potential deficit outlook as of June 1995 of \$11.3 billion and the actual deficit of \$8.8 billion in 1995-96 have been restated to reflect the reclassification of GO Transit and the Ontario Housing Corporation to government service organizations.

## Controlling Ontario's Debt

We Remain on  
Track for our  
Balanced Budget  
Target

While we remain on track for our balanced budget target, we are not about to sit by and watch our children's future swept away by a sea of debt.

It would be wrong to shackle our children with this financial burden. The debt threatens our economy and our public services. It means that the Province must continue to pay more than \$9 billion in interest each and every year. This is more than we spend on education and is now almost half the size of the budget for health care, our highest priority.

Once the budget is balanced, we will put in place a program to cut that debt to ensure that our children will have the opportunities they deserve.

## ONTARIO'S ECONOMY - STRONG, AND GETTING STRONGER

Ontario's economy is responding to the Government's plan to make Ontario, once again, a province of jobs and opportunity.

Our deficit reduction plan, along with those of other governments, has been a major factor in lowering interest rates. This record of fiscal responsibility by all governments in Canada is leading to improved business and consumer confidence, and to more jobs.

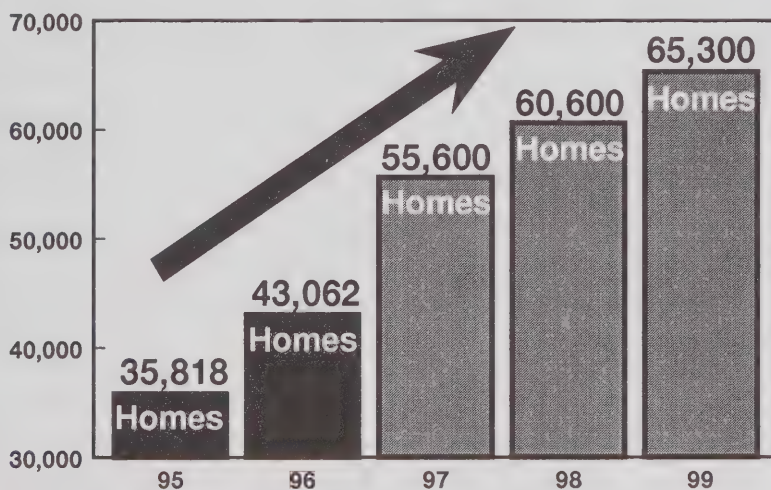
The housing market continues to strengthen and the number of housing starts is projected to rise by 29.1 per cent in 1997.

In last year's Budget I introduced a rebate of the Land Transfer Tax for first-time buyers of new homes. This measure contributed to a 20.2 per cent increase in the number of housing starts in 1996. More than 12,000 refunds were paid to first-time home buyers in the past 12 months.

**Fiscal  
Responsibility  
Leads to More  
Jobs**

### Housing Market Continues to Strengthen

43,000 New Homes in 1996



Sources: CMHC and Ontario Ministry of Finance

On March 31st, I announced that this successful rebate has been extended for another year.

## **Jobs are Being Created**

The Ontario economy has responded in a renewed spirit of confidence and optimism.

### **45,600 New Jobs in March Alone**

In March alone, the Ontario economy created 45,600 new jobs. Reflected in this increase is the largest monthly private sector job gain on record.

A wide range of indicators point to strong job growth in the coming months. The Ontario Help Wanted Index, which measures job ads placed by employers seeking workers, is up 17.8 per cent over the past twelve months. The last time the Help Wanted Index grew that fast, job growth accelerated to nearly 200,000 jobs per year.

Private sector economists have identified the rising trends in consumer spending, housing activity, new orders and overtime activity as strong leading indicators of accelerating job growth.

The Royal Bank, for example, is predicting an increase of 700,000 net new jobs in Canada over the next two years. According to the Bank, Ontario is expected to account for well in excess of its normal share of that job growth.

### **Ontario's Economy Will Do Better**

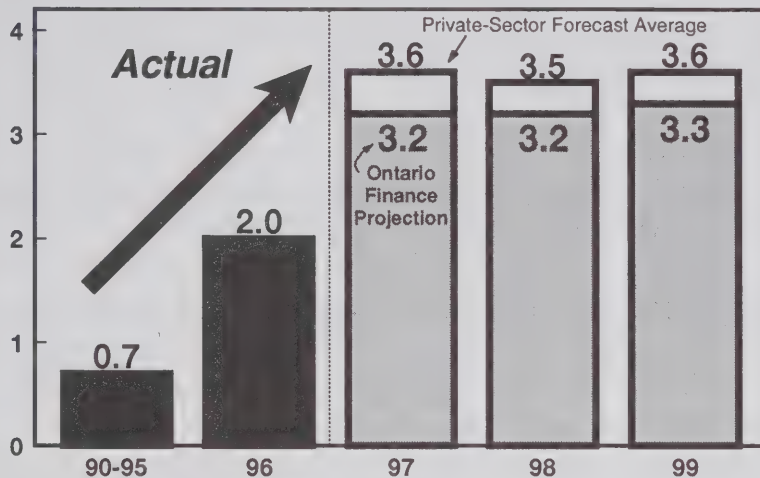
While this pace of job creation is an improvement, it's not acceptable to this Government. Ontario's economy can and will do better.

We need to continue to cut taxes. We need less government. We need to continue to reduce the regulation and red tape that discourage businesses and we need to continue to create an environment that encourages communities and small businesses to grow and create jobs.

---

## Stronger Growth Projected

Real GDP growth, average annual per cent



Sources: Statistics Canada and Ontario Ministry of Finance

## INVESTING FOR JOBS AND GROWTH

### Helping Communities to Grow and Small Business to Create Jobs

Small businesses create jobs - more than any other sector.

As noted by the Committee on Small Business Access to Capital, small businesses need greater access to financing to help them grow and create jobs.

I would like to thank my colleagues Jim Brown, Tom Froese and John O'Toole, who served as members of the Committee, as well as the co-chairs, Rob Sampson and Joe Spina, for their ideas.

Following consultations on their recommendations, I am announcing today that the Government will help with the creation of Community Small Business Investment Funds.

I will introduce legislation to make these funds eligible as investments for Labour Sponsored Investment Funds (LSIF) and the small business investment tax credit for banks.

Creating  
Community Small  
Business  
Investment Funds

To further encourage investment in these Community Small Business Investments Funds, every dollar invested by an LSIF in these funds will count as two dollars up front in meeting the LSIF's small business investment requirement. We will also be increasing that requirement from 10 per cent to 15 per cent for 1997 and 1998, and to 20 per cent for 1999.

We have asked the federal government to recognize LSIF investments in these new Community Small Business Investment Funds as eligible investments for federal purposes.

### **Helping Communities through Enterprise Centres**

#### **Enterprise Centres for Small Business**

To help both new and growing small businesses throughout the province, we will help establish a network of Enterprise Centres for Small Business. The Centres will provide coaching and mentoring in business planning, marketing, accounting and overall business strategy.

The current Self Help Office Program of the Ministry of Economic Development, Trade and Tourism will be consolidated with Enterprise Centres.

I want to thank the new Parliamentary Assistant for the Ministry of Northern Development and Mines, Joe Spina, for his enthusiastic work in developing the Enterprise Centre concept.

### **Banks Must Assist Small Business in Providing Jobs and Growth**

Banks also have a role to play in small business development.

#### **Helping Small Business Create Jobs**

Last year, bank profits reached more than \$6 billion, an increase of more than 20 per cent from the record levels of 1995. However, small business people tell us they continue to have problems getting the bank financing they need to grow and create jobs. These financing problems are the greatest for new and emerging small businesses.

The small business investment tax credit for banks, announced in the 1996 Budget as a temporary incentive, allows banks to earn back a surtax introduced last year by investing in small business.

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To help increase small business access to financing, I am announcing today a number of measures to enrich this earn-back program. I am also making it permanent. As of tomorrow:

- ◆ The amount of tax that can be earned back will be increased from 20 per cent to 75 per cent for equity investments of \$50,000 or less.
- ◆ Large financial institutions investing in Community Small Business Investment Funds will be able to earn back tax at 40 per cent.
- ◆ Other large financial institutions will be allowed to earn back tax by lending to small business.

The Canadian Imperial Bank of Commerce has taken a leadership role in providing loans to small businesses at below-prime interest rates. To recognize that leadership and to encourage other financial institutions to follow, the ability to earn back taxes will be extended to encourage loans of \$50,000 or less to small businesses at interest rates below bank prime.

### Encouraging Loans at Rates Below Bank Prime

These measures will help to provide lower cost financing and patient capital to more than 25,000 small businesses in Ontario. We will be consulting with small business and financial institutions on the implementation details of these measures before introducing legislation.

We will parallel the federal government's extension of its capital tax surtax on large financial institutions and harmonize the capital tax on banks and other financial institutions with the federal large corporations capital tax. These changes will help reduce compliance costs for business and administration costs for government.

Capital tax rates will be cut and special rules will be introduced to help credit unions and smaller financial institutions.

The new tax base and rates will be effective May 7, 1997 on a prorated basis.

*Details of these measures are provided in Budget Paper C.*

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## Investing in Rural Communities

The agricultural sector is an important contributor to jobs, growth and exports in Ontario. Our potential to export and create more jobs is a strength on which we want to build.

The budget of the Ministry of Agriculture, Food and Rural Affairs has been increased to \$405 million. We have maintained the Ministry's share of program spending.

### A Three-Year, \$30 Million Rural Job Strategy

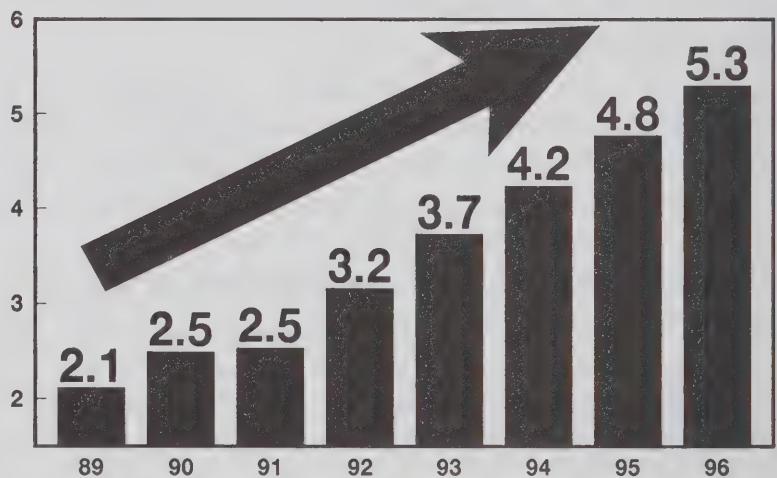
Today, I am announcing the creation of a three-year, \$30 million Rural Job Strategy.

Three million dollars will be used this summer to create 3,000 jobs for youth in rural Ontario.

In addition, this strategy will build on the success of Ontario's agri-food sector, which has raised exports by 160 per cent over the past decade. It will include measures to increase exports by improving quality, marketing and the use of information technology.

### Agricultural and Food Exports Growing

\$ Billion



Source: Statistics Canada

Together with the enhanced support for small business lending announced today, the Rural Job Strategy will provide the basis for job creation throughout rural Ontario.

Details of these actions will be announced by my colleague, the Honourable Noble Villeneuve, Minister of Agriculture, Food and Rural Affairs.

In the 1996 Budget, we introduced a temporary retail sales tax rebate on building materials for farmers. This rebate has been extended to provide additional assistance to the farming community over the next year.

We are reforming the taxation of farmland and replacing the Farm Tax Rebate with a lower rate of property tax.

## **Investing in Jobs for Young People**

To help young people secure needed income and work experience, we will invest in new summer work opportunities. This Budget provides an additional \$6 million to support summer employment. As a result of this added investment, we will support 40,000 students this summer. This is an increase of 6,000 over the previously announced level and 10,000 over the number of student opportunities last year.

**40,000 Jobs for  
Students**

We will help graduates struggling to get experience in a tough job market. We will provide a 10 per cent tax credit to both large and small private-sector employers to create 45,000 internship jobs over the next three years for young people in Ontario.

Many of the new jobs being created in Ontario today are in small businesses and through self-employment. Working in co-operation with banks and private-sector business organizations, the government will contribute \$2.5 million toward the cost of providing business start-up loans for youth. These loans can be up to \$7,500 each and will support the creation of 3,000 jobs.

**Business Start-Up  
Loans for Youth**

Our Government will also support jobs for youth in key sectors of the economy by expanding the successful Co-operative Education Tax Credit introduced in last year's Ontario Budget. This measure will provide students enrolled in leading edge

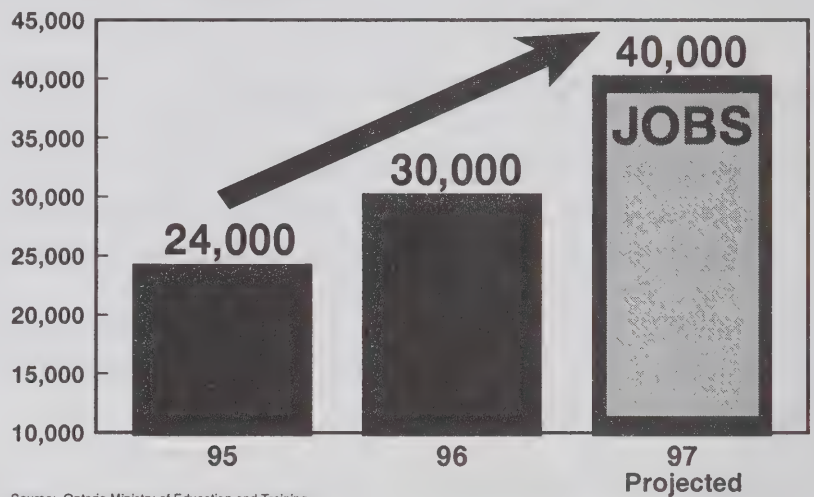
## Tutors in the Classroom

technology educational programs, such as software development, with a 10 per cent tax credit voucher for employers who hire them in jobs related to their program of study.

To bring the latest in math, science and technology knowledge right into our classrooms, we will provide a similar grant to school boards that provide practical work placements for post-secondary students in these disciplines. These students will help teachers update teaching materials, introduce children to new technologies, and serve as tutors in the classroom.

### More Summer Jobs for Youth

Number of Youth Supported



Source: Ontario Ministry of Education and Training.

## Investing in Transportation for Economic Development

The highway system in Northern Ontario and the gateways to the North are important to economic development. They provide critical links for the shipment of goods, for resource based industries, and for tourism activity, so important to the North.

To promote the Northern economy and create jobs, the Government will provide an additional \$200 million over the next

five years to accelerate highway construction. This will improve travel and safety on Northern highways through the four-laning of certain key highways as well as the addition of passing lanes and paved shoulders for greater safety.

### **\$200 Million to Improve Northern Highways**

Vehicle registration fees will be standardized in Southern Ontario at \$74 per year. This will mean a reduction of \$16 per year for every driver in the Toronto area.

To make a contribution to the cost of the upgrades of Northern highways while recognizing the higher costs of fuel in the North, Northern vehicle registration fees will be set at \$37 per year, one-half the level in the South. Every dollar raised in the North will be invested in improvements to Northern highways.

## **Investing in the Environment**

A modern and efficient water and sewer system is essential for a healthy environment and for economic development.

To that end, the Province will provide \$200 million to help municipalities invest in these environmental facilities over the next three years.

## **CREATING JOBS FOR THE FUTURE**

Keeping Ontario at the leading edge of science and technology will help the province create long-term jobs. However, Ontario's investment in research and development needs to keep pace with that of our competitors.

Ontario invests about 2 per cent of its economy in research and development, compared to 1.6 per cent for all of Canada. The United States, for example, spends 2.5 per cent and Japan spends 2.8 per cent.

### **Two of Every Three New Jobs in Technology-Based Industries**

Ontario's economy needs to invest more in R&D. During the last 10 years, two of every three new jobs in Ontario were created in knowledge and technology-based industries.

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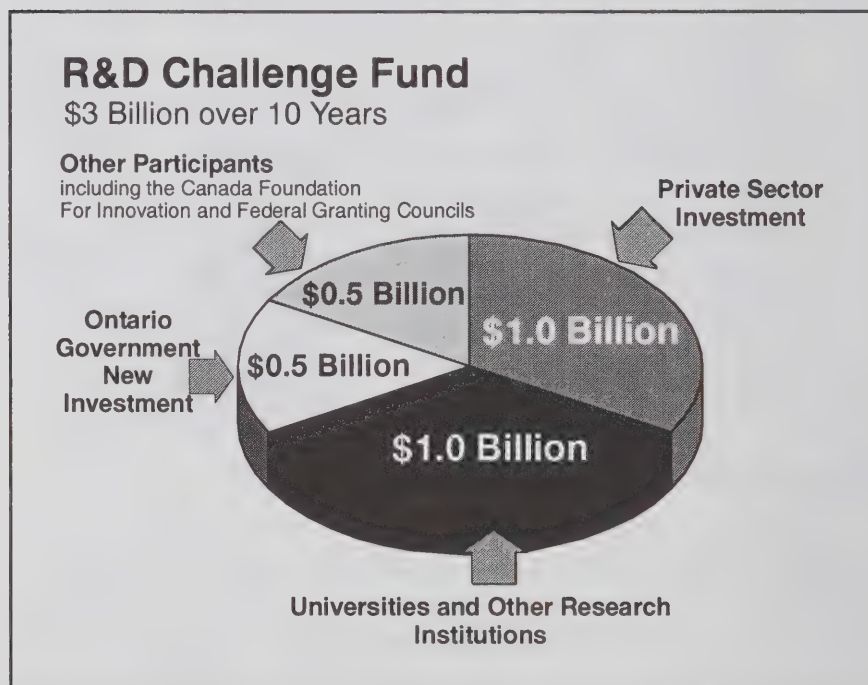
We need to promote more collaboration and co-operation with the private sector and we need to stimulate greater competition for research excellence among Ontario's universities.

## Meeting the R&D Challenge

Ontario's universities are world leaders in many fields of research. To help the private sector take advantage of our world-class research capabilities in universities and other research institutions, I am announcing today the creation of a ten year \$3 billion R&D Challenge Fund.

The Province will contribute \$500 million in new funding to the R&D Challenge Fund over the next ten years.

Incentives for  
Excellence



The proposed approach distributes research support, not through a block grant, but rather through a process that provides incentives for excellence while at the same time including a market test of research relevance.

To participate, universities and other research institutions must match the Provincial contribution in the first year of the Fund. The amount required from participants will rise over the life of the Fund.

The R&D Challenge Fund marks a new, competitively-based approach to research funding. All proposals to the R&D Challenge Fund will have to meet a market test linked directly to future economic growth and job creation, in the form of a one-third contribution from the private sector.

Teaching at the post-secondary level will be enhanced as a result of increased R&D activity and greater exposure to world-class research capabilities. The R&D Challenge Fund will also ensure that Ontario universities are able to compete effectively for funding from the Canada Foundation for Innovation.

This new program will result in a total of \$3 billion of R&D in our universities and other research institutions over the next ten years.

My colleagues, the Honourable John Snobelen, Minister of Education and Training, together with the Honourable Bill Saunderson, Minister of Economic Development, Trade and Tourism, will consult on the implementation of the program.

To strengthen Ontario's R&D tax competitiveness and to forge stronger linkages between the private sector and non-profit research institutions in Ontario, I am announcing today the Ontario Business-Research Institute Tax Credit. This credit will provide a 20 per cent refundable tax credit for qualifying business-sponsored R&D performed by eligible Ontario universities, research hospitals and other non-profit research centres.

To encourage medical research in Ontario, I am extending the sales tax exemption for research and development equipment to non-profit medical research facilities, such as the Robarts Research Institute in London, Ontario.

## **Removing Tax Barriers to R&D**

Taxes should not discourage R&D and job creation.

We will also introduce changes to the capital tax and the Retail Sales Tax to remove barriers to research and development in Ontario.

**Taxes Should Not  
Discourage R&D  
and Job Creation**

## Commercializing New Technology

In addition to R&D, the commercialization of new technology will help foster job creation and new investment. I am taking steps today to encourage the acquisition and commercialization of new technology by allowing firms to deduct immediately the costs of acquiring new technology and by eliminating Ontario's tax on royalty payments for foreign technology, such as computer software.

*Details of tax changes to encourage new technology investment and the removal of barriers to R&D are provided in Budget Paper C.*

### One of the Most Competitive Tax Systems for R&D

With these changes, Ontario will have one of the most competitive tax systems for R&D in the world.

We are responding to the challenges of a global economy. In total, over the next 10 years, the actions I am announcing today will result in more than \$6 billion in private sector-related R&D. This is an investment in jobs for our children.

## Building on Excellence

Sheridan College is an outstanding example of excellence in the field of computer animation.

Companies such as the Disney Corporation are establishing operations in Ontario to take advantage of the skills and talents of Ontario's computer animation and multimedia design graduates.

### Promoting Skill and Talent to Create Jobs

We want to build on the success of institutions like Sheridan College in promoting excellence and creating jobs. The Government is prepared to commit up to \$12 million toward the creation of a new, world class, Animation, Communications Design and Technology Centre at Sheridan.

This Centre, which will incorporate digital and multimedia technologies as well as animation, will be established with private-sector partners. These private firms will more than match the government's commitment. We expect that this new Centre will

be self-sustaining and able to repay the Province's investment as it matures. We encourage other institutions to take up this challenge to develop world-class partnerships in their own areas of excellence.

In consultation with my colleague, the Honourable Marilyn Mushinski, Minister of Citizenship, Culture and Recreation, I am announcing a number of measures to support artistic activity and excellence in Ontario.

In recognition of the significance of cultural and artistic activities to the people and economy of the Province, I am announcing today that the successful Film and Television Tax Credit will be increased to 20 per cent. In addition, I am introducing a new 15 per cent Computer Animation and Special Effects Tax Credit for productions in Ontario. Computer animation and special effects for Ontario films will qualify for 35 per cent in tax credits all together. First-time film makers will continue to get a 30 per cent film tax credit, and total credits of 45 per cent will be available for computer animation in a first-time film.

Last week I had the opportunity to attend the opening of the studio for the new CBC prime time show Riverdale. I spoke with Canadian actress Lynne Griffin, who has returned to Canada after 15 years of working in the United States.

This Government wants to ensure that talented young people trained in this province have the opportunity to work and create jobs here, and to work on the global stage with such Canadian greats as Norman Jewison. We will consult with educators, industry and artists to explore further ways to accomplish this goal, for our talented young people.

Canadian authors and Ontario publishers have also established an international reputation for excellence in the arts. To support and build upon these achievements, I am announcing a refundable tax credit to assist Ontario companies that publish and promote first-time Canadian authors. This measure will provide a credit of 30 per cent for pre-production and promotional costs, and 15 per cent for printing costs in Ontario.

## Supporting Artistic Activity and Excellence

## Promoting First-Time Canadian Authors

## INVESTING IN QUALITY HEALTH CARE

We promised a new approach to health care, one that puts the needs of patients first.

### Higher Quality, Integrated and Community-Based Health Care

We are making sure that the money we are allocating for health care provides services for patients and not for bureaucratic waste. By managing the system better, we are providing a higher quality, integrated community-based health care system for the future.

The Government is more than meeting its commitment to maintain health care funding at \$17.4 billion. For 1997-98, Ministry of Health program funding to improve the quality of care will exceed \$17.8 billion. As well, \$450 million will be invested in restructuring and \$242 million will be provided for capital construction bringing total funding for health care to \$18.5 billion.

### Support for Health Care – Our Highest Priority

Unlike the federal government, we have made support for health care our highest priority. The federal government has cut funding for people in Ontario from the program that supports health care by \$2.1 billion since 1995-96. The federal government provides about \$797 for each person in Ontario for the program that supports health care, less than it provides in eight other provinces.

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#### Federal Program Supporting Health Care (Canada Health and Social Transfer) 1997-98

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	CHST Per Person
Quebec .....	\$914
Newfoundland .....	\$883
Nova Scotia .....	\$845
Prince Edward Island .....	\$830
New Brunswick .....	\$830
Manitoba .....	\$829
Saskatchewan .....	\$806
British Columbia .....	\$804
<b>Ontario .....</b>	<b>\$797</b>
Alberta .....	\$754

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The priority our Government places on comprehensive health care means that we have not only maintained health care funding despite the \$2.1 billion federal cut, we have increased program funding to a record level of \$17.8 billion.

## **Record Investment in Health Care**

The recommendations of the Health Services Restructuring Commission will allow this Province to put in place the most modern and effective integrated health care system in this country. These actions will create a better managed, more efficient and more co-ordinated health care system that better meets the needs of patients.

The investments needed to achieve this goal are substantial. Over the next five years, \$2.7 billion will be invested in the restructuring of our community-based health care system.

We are keeping the promise to reinvest.

## **Managing Change to Ensure Better Services**

Our goal in the restructuring of our health care system is to put the needs of patients first by creating the most comprehensive and effective health care services in this country. During pre-budget consultations, we heard that the pace of this restructuring needs to be kept in line with the activities occurring in our communities.

We are listening to the advice of communities and health care professionals. During pre-budget consultations we heard that the Health Services Restructuring Commission has set out achievable restructuring objectives. Decisions have been made and restructuring is well underway, based on these objectives. Planned savings for reinvestment, to be achieved in 1998-99, will be rescheduled so that they more closely coincide with the implementation of this restructuring.

The Minister of Health will be consulting with communities, and those involved in health care delivery, to determine how best to co-ordinate achievement of these savings with the restructuring activities in our communities.

**A Health Care  
System That  
Better Meets the  
Needs of Patients**

### **Making Quality Care Available to More People, in More Places**

The key to improving the quality of health care is the skill, expertise and caring of the people who work in the health care system.

We will ensure that special skills and knowledge are available throughout Ontario by helping to create networks of information. These networks will make best practices and innovations available quickly and broadly, providing care givers the knowledge needed to help patients across the province.

These networks will allow us to ensure that quality care in areas such as women's health care, orthopaedic care, and AIDS treatment and prevention is available to more people, in more places, than ever before.

Just recently, the Premier announced the establishment of Cancer Care Ontario to link and integrate cancer services throughout the Province. The existing Ontario Cancer Treatment and Research Foundation will become part of Cancer Care Ontario, and linkages will be established with all other service providers in the province.

### **Investing in Special Health Care Services**

### **Reinvesting in Priority Health Care Services**

As promised, we are reinvesting in priority health care services. This year, \$138.5 million in additional funds will be provided to ensure access to essential services in health care facilities.

These reinvestments include funding to advance the Minister of Health's Cardiac Strategy to ensure that patients in need of services are treated.

Also included is increased support for the Minister of Health's Dialysis Strategy which provides dialysis treatment for patients in need. Increased funding is being provided for transplants for adults and children. We are also providing more support to enhance community-based services for mental health patients.

We are all inspired by Rick Hansen and his Man in Motion Foundation. Through the Foundation, several groups are working together to fund head and spinal cord injury prevention programs, rehabilitation services and research.

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As recently announced, the Government will match every dollar raised in the province, to a maximum of \$5 million per year. Over the next five years, this could mean \$50 million in new funding for neurotrauma initiatives. I encourage the private sector to join us in supporting this important program.

Details of these investments will be provided by my colleague, the Honourable Jim Wilson, Minister of Health.

## INVESTING IN EXCELLENCE IN THE CLASSROOM

Classroom education in this province needs improvement.

From 1985 to 1995, school board spending grew by 82 per cent. Education mill rates rose by 80 per cent and school property tax revenues rose by more than 120 per cent. We know this did not result from increasing enrolment as that grew by only 16 per cent.

School board spending and taxing were out of control - the same reason the province's spending and taxes rose to unacceptable levels.

The solution for the problems in the school system is the same as it is for the Province itself. We have to eliminate unproductive spending. We have to stop the uncontrolled growth in taxes.

That is the problem. We are fixing it.

The direction in which we are going is clear.

- ◆ We will have less government in the school system.
- ◆ We will reduce the number of school boards by almost half, from 129.
- ◆ There will be fewer trustees - less than half of the 1,900 we have now.

We have to build a new and better system. That requires investment. We will make that investment.

**Less Government  
in the School  
System**

## **Investing in the Classroom**

We are investing in the classroom.

We have committed \$650 million for primary and secondary school capital over the next two years. These funds will address the current needs of Ontario's school boards to renew existing schools and build new schools.

### **\$231 Million for New School Facilities**

As part of this commitment, we have provided \$231 million to construct needed new school facilities. Through this investment, school boards will be able to eliminate more than 1,000 portable classrooms and replace them with needed permanent facilities.

We will continue to invest in better education for our children.

## **Renewing Classroom Teachers**

For several years, many graduating teachers have been unable to secure full-time jobs in the teaching profession. Their skills and dedication are essential to the future of our children and we cannot afford to waste those talents.

### **Renewing the Teaching Profession**

I am inviting the teaching profession to join with us in providing an early retirement benefit for teachers to renew the profession. As a result of this initiative, up to 6,500 new teachers would have the opportunity to bring their skills and energy to students in the classrooms of this Province.

This is an opportunity that benefits teachers and students:

- ◆ It is an opportunity to honour the efforts of long-time teachers who now want to take on other challenges;
- ◆ It is an opportunity for graduating teachers to begin a full-time career in the classroom;
- ◆ It is an opportunity for experienced teachers to benefit from the energy and enthusiasm that newly trained colleagues will bring to classrooms; and

- ◆ It is an opportunity for children in thousands of classes to benefit from a renewed classroom.

We have made a provision of \$250 million in the 1996-97 fiscal year for the Province's share of the cost of this \$500 million initiative. The early retirement program would be paid from the Teachers' Pension Plan, which has experienced gains of up to \$2 billion that can and should be used for this renewal. We are inviting the teachers to join us on an equal 50/50 basis to provide this benefit and renewal.

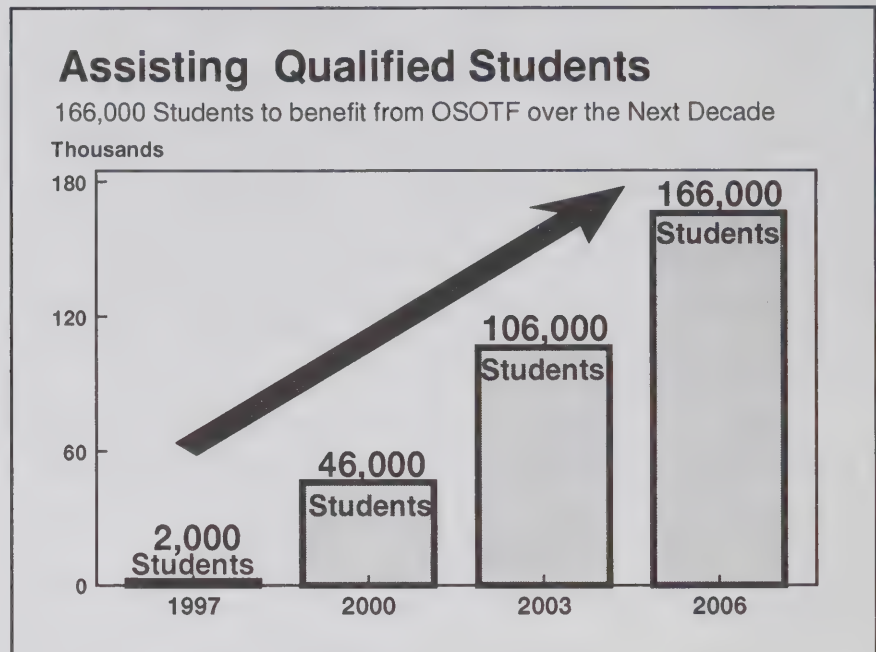
## INVESTING IN ONTARIO'S COLLEGE AND UNIVERSITY STUDENTS

### Ontario Student Opportunities Trust Funds Are Helping Qualified Students

The Ontario Student Opportunities Trust Funds (OSOTF) have more than doubled their \$100 million target. These funds were established in last year's Budget to allow universities and colleges to assist academically qualified individuals facing financial barriers to post-secondary education.

Reports from universities and colleges show that cash and pledges received by March 31 total over \$250 million. The Province will match this amount, creating an endowment of **one-half billion dollars to assist students**.

**One-Half Billion  
Dollars to Assist  
Students**



## Helping 166,000 Students

It is estimated that these trust funds will assist 166,000 students over the next decade.

This successful program has permitted Ontario's colleges, many of which have never engaged in fund raising for student aid, to raise approximately \$18 million, creating \$36 million in trust funds.

Because colleges have a less developed tradition of fund raising, they faced special obstacles in taking advantage of this program. The Government recognizes the challenges faced by the colleges and wants to encourage their development of fund raising as a permanent activity. I am announcing today that colleges of applied arts and technology can continue to receive pledges and donations until March 31, 1998.

## Helping Students with Learning Disabilities to Realize their Potential

Too few students with learning disabilities get the help they need to make the transition to college or university.

To help these students realize their potential, we will establish pilot projects at the college and university level, the first of their

kind, to provide real help to learning disabled students in a meaningful way. Dr. Bette Stephenson, pioneering former Minister of Education and mentor, will head a Task Force to design and implement these projects.

We will provide \$30 million over the next five years to carry out this initiative and implement the recommendations of the Task Force.

The courage and determination shown by my late son Justin, and many others like him, provided me with the inspiration to provide this much needed initiative, so that all young students can have an equal opportunity to fulfill their potential.

### **Income Contingent Loans**

This Government is committed to assisting students to achieve their educational goals. Funding for the Ontario Student Assistance Program has been increased by more than 25 per cent, or over \$100 million, since 1995-96. This year, spending on student assistance will total \$505 million.

We are committed to providing appropriate and adequate support for students who need it. This means that student loan support must better reflect the rewards that students realize from public investment in their education.

We are committed to working with the federal government to implement an income contingent student loan program for September, 1998.

## **INVESTING IN CHILDREN AND FAMILIES**

The Premier recently announced \$45 million in reinvestments to support children, including speech and language services and early intervention to protect children at risk of abuse and neglect.

**Helping Learning  
Disabled Students  
to Realize Their  
Potential**

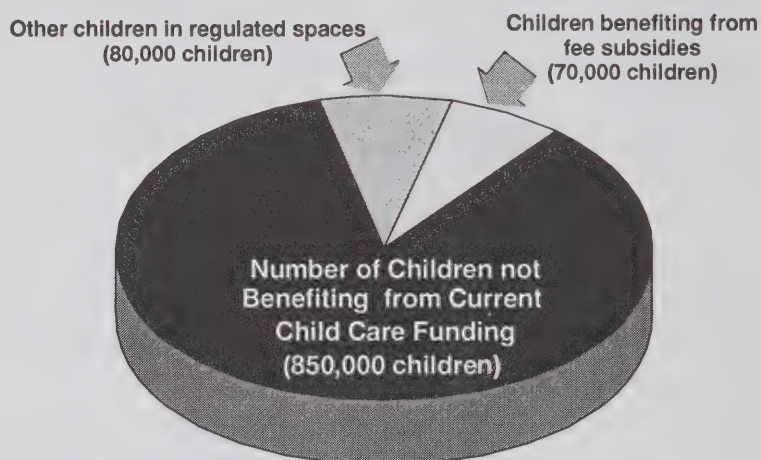
**Supporting the  
Needs of Children**

## A Tax Credit for Child Care

The government also provides \$344 million in child care fee subsidies to help more than 70,000 children in this province. However, too many other children and families in similar circumstances receive no help at all from the subsidy system. That's not fair.

### Need for Child Care is Great

Current System Is Unfair (Children Under Age 12 In 1997)



I am announcing a new child care tax credit to assist working families who are not benefiting from the current institutional child care system.

### Helping 90,000 Families With Child Care Costs

Our credit will provide assistance with child care costs to 90,000 families and 125,000 children. Families with two children will be eligible for this credit up to incomes of \$40,000.

For 1997, this credit will provide up to \$400 per child under the age of 7 and will decline in value for families with incomes above \$20,000 per year.

This credit will provide an immediate \$40 million in assistance to lower income working families with child care expenses and will be financed from the \$40 million enhancement announced in the 1996 Budget.

Our child care credit will build on our planned improvements to the child care system resulting from the child care review and

consultations with municipalities carried out by the Ministry of Community and Social Services. The new system will provide more choice to parents and help child care providers make care more affordable. More families will receive assistance, with priority being given to families who need help to start or stay at work.

## Helping Children in Need

Ontario supports the inter-provincial initiative for a National Child Benefit. Under this initiative, the federal government will contribute to part of the cost of income security for children. The provinces, in turn, have agreed to invest the funds formerly spent on social assistance in programs that help children in low income families.

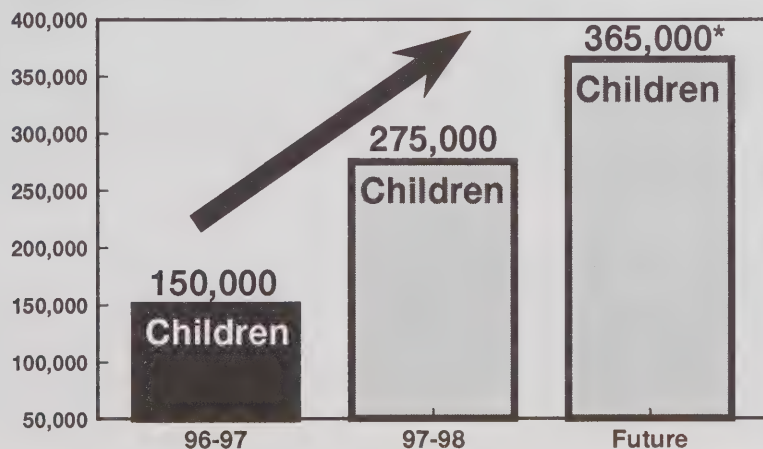
For our part, we will redirect more than \$150 million in provincial funds by expanding programs that help families with children to find and keep jobs. \$100 million will be used to enhance our child care tax credit for working families as the National Child Benefit is phased in.

**\$150 Million to  
Expand Programs  
that Help Families**

I would like to thank my colleague, the Honourable Janet Ecker, Minister of Community and Social Services, for her leadership on these important measures to help children and families.

### Supporting Families Using Child Care

Number of Children



\* Exact number depends on future design

## **Cutting Taxes for Low Income Families with Children**

In addition to providing help with child care costs, we will reduce taxes further for low income families, particularly those with children. The Ontario Tax Reduction program will be enriched to reduce taxes for 30,000 families. Twenty thousand more families will pay no Ontario income tax as a result of this change.

This means that, in our first two budgets, we have provided an enhanced tax cut for 255,000 low income individuals and families. Another 30,000 individuals and families pay no Ontario income tax as a result of these changes.

In total, the Ontario Tax Reduction cuts taxes for 530,000 individuals and families and eliminates Ontario income tax entirely for another 655,000 individuals and families. The federal government is collecting income taxes from more than 55 per cent of the low income families paying no Ontario tax.

## **Protecting Vulnerable Children**

The protection of children is a priority for this Government. The government has supported the Child Mortality Task Force and welcomed its preliminary report.

As an initial step, this Budget provides \$15 million to respond to the Task Force and to protect vulnerable children.

We know that more must be done. The government looks forward to the final report of the Task Force and the recommendations from inquests currently underway. We are prepared to take the necessary steps to ensure that children are protected.

We will provide an additional \$5 million to accelerate implementation of enhanced enforcement measures to collect monies owed by delinquent parents. My colleague, the Honourable Charles Harnick, Attorney General of Ontario, will provide details.

### **Protecting Vulnerable Children**

## **SUPPORTING SAFE COMMUNITIES**

Our plan places a high priority on improving safety in our communities and dealing with violent crime.

### **Safe Children, Safe Communities**

Parents are rightly concerned that their children be protected when participating in community sponsored and supervised activities. Recent highly publicized events, however, have undermined the confidence that parents have in the safety of these activities.

The Ontario Provincial Police currently provides, at no cost, about 100,000 checks of police records for volunteer organizations. It is expected that all local police forces will join in this important community safety initiative in support of volunteers. To complement the community safety initiatives of the police, the Government will assist community groups through the Volunteer Linkages program to better screen and supervise volunteers.

My colleague, the Honourable Dianne Cunningham, Minister Responsible for Women's Issues, will be announcing a comprehensive strategy which will strengthen our efforts to prevent violence against women. We will spend an additional \$27 million over the next four years to support women and their families in breaking the cycle of violence.

**Breaking the  
Cycle of Violence**

### **Safe Travel in Our Communities**

In order to promote safety in our communities, the Government will work with municipalities to help identify and establish "community safety zones". Fines levied for infractions committed in these zones would be doubled.

These zones could be portions of roads where the safety of children is paramount, such as school zones and crossings, school bus stops, day care centres, children's parks, or areas of roadways with high accident rates.

**The Safety of  
Children is  
Paramount**

Fines for other activities, such as the sale of cigarettes or liquor to minors, that put young people at risk will also be doubled.

These double fines will contribute revenue to the Victims' Justice Fund, which provides funding for programs and services helping victims of crime.

### **Safer Communities Through Co-ordinated Policing**

#### **Safer Communities**

The Campbell Report has identified a number of needed improvements in the way in which police services work together to investigate and apprehend serial predators. This Government is acting on those recommendations. We will provide \$25 million over the next five years to improve the information sharing capacities of police services and to better co-ordinate the efforts of all the participants in these investigations.

### **Helping Victims of Violence**

Sometimes the victims of violence also include the survivors of those who have lost their lives protecting others. People in Ontario are justifiably outraged that the killer of a police officer can receive an education in prison at the taxpayers' expense while the children and spouse of the slain officer have no support for their education.

This is not right and it is not just.

To correct this injustice, we will provide \$5 million this year to create an endowment for the families of police, firefighters and other public safety officers killed in the line of duty. This endowment will fund the cost of tuition and books for post-secondary education. Private donations will enhance this endowment.

In addition, the Victim Support Line pilot, scheduled to end in June of this year, will be extended until March 31, 1998 at a cost of \$1.5 million. Ontario is the first jurisdiction in Canada to provide an automated notification service to victims of crime.

---

I would like to thank my colleague, the Honourable Robert Runciman, Solicitor General and Minister of Correctional Services, for his contribution to community safety.

## PROMOTING CHARITABLE GIVING

In last year's Budget, I announced Crown foundation legislation to assist in mobilizing resources for important health, cultural and social organizations.

In the last year, 19 Crown foundations have been created. These consist of one research organization, 8 hospitals and 10 arts and culture organizations, including the Stratford and Shaw Festivals, and the National Ballet of Canada foundations.

I want to take this opportunity to thank Isabel Bassett, my Parliamentary Assistant, for her hard work in making this measure so successful and for her excellent advice on this and other important issues.

In its most recent budget, the federal government actually reduced the amount of a gift to a Crown foundation that can be claimed for an income tax credit from 100 per cent of income in a year to 75 per cent. While that budget followed Ontario's lead by providing incentives for conventional charitable giving, its treatment of Crown foundations is not appropriate.

We have asked the federal government to administer, for Ontario, a tax credit to address this problem. This credit would ensure that those wishing to make gifts above the federal maximum will pay no more Ontario tax than they did before the unfortunate federal changes.

The federal government has said no. Our request means no cost to the federal government, since we would pay for administration, and only Ontario tax would be affected. It also means that the federal government is attempting to prevent Ontario from encouraging giving to charitable foundations by making changes to our own provincial tax system.

---

## **THE FEDERAL GOVERNMENT MUST TAKE A CO-OPERATIVE APPROACH**

### **The Best Job Creation Program is a Tax Cut**

The best job creation program is a tax cut.

### **Federal Action Needed on Taxes and Job Creation**

In addition to Ontario, British Columbia, Alberta, Manitoba, New Brunswick, Nova Scotia, and Saskatchewan have each introduced several tax cuts in their budgets.

The federal government said it had no flexibility to cut taxes. Now, a little over two months later, we hear media reports that its 1996-97 deficit is as much as \$6 billion lower than was reported at budget time. It is missing an opportunity to cut taxes and create jobs.

### **High EI Payroll Taxes are Killing Jobs**

It will come as no surprise that I believe one of the first federal tax cuts should be to Employment Insurance (EI) premiums. At the current employee premium rate of \$2.90, Canadian employees and employers are paying \$5 billion more than is being received in benefits.

An excessive EI premium rate is particularly damaging to Ontario. Ontario businesses and employees pay \$4 billion more in premiums than Ontarians receive in EI program benefits. This means that contributions from people in Ontario account for 80 per cent of the \$5 billion annual surplus. That is unfair.

This tax is killing jobs in this province and in Canada as a whole. While the federal government has committed to a 10 cent cut next year, there is room for a much larger reduction.

Many economic studies, including those by the Canadian Federation of Independent Business, have found that cutting the EI payroll tax would provide a major boost to job creation. In fact, a study by the Bank of Canada found that rising "payroll taxes may

have increased the trend unemployment rate by over one percentage point between 1989 and 1994." These studies tell us that up to 200,000 jobs have been lost nation-wide because of high payroll taxes.

Even federal finance minister Paul Martin has recognized the drag that payroll taxes place on job creation. On August 30, 1994, he said that "high payroll taxes are a cancer on the economy".

We agree. The federal government has the opportunity to create as many as 200,000 jobs across this country by cutting the EI rate to \$2.20. It should do so as soon as possible.

I have written to the federal Minister of Finance to express Ontario's view that the EI Account should be removed from Ottawa's books and externally managed, as will be the new CPP investment fund. We want this fund to be responsibly managed in the interests of the people who pay into it and we want the federal government to stop using it as cash flow.

## **Fair Treatment for People in Ontario**

While Ontarians contribute a fair share to the EI program, they do not receive a fair share of EI benefits when they are unemployed. In 1996, the federal government paid an average of \$13,100 in EI benefits per unemployed person in New Brunswick and \$6,500 in British Columbia, but an average of only \$4,800 in Ontario.

For EI-financed training, the federal government has offered to spend, on average, \$850 per unemployed worker in Ontario. In Quebec, the federal government will provide \$1,060 per unemployed worker as part of a recently signed agreement. Ontarians believe that unemployed workers in Ontario should have the same federal support for training as in Quebec or other provinces.

If the federal government is prepared to treat the unemployed in Ontario fairly, we are prepared to sign a training agreement today.

---

### Ontarians Deserve to be Treated Fairly

People in Ontario deserve a fairer deal.

Employment Insurance is not the only area in which people in Ontario are unfairly treated.

As I said earlier, the situation is similar in health care. The federal government provides \$797 per person for the program that supports health care in Ontario. In eight other provinces, it provides up to \$117 more per person.

Similarly, if the federal government were prepared to provide First Nations people in Ontario with the same level of funding it provides in the rest of Canada, annual funding to First Nations people in Ontario would increase by about \$145 million.

Whether it is people in Ontario who need training, who are unemployed and need EI benefits, or who need health care, the federal government provides less support to individuals in Ontario than to people in other parts of the country.

Ontarians deserve to be treated fairly.

### **Federal Co-operation in Improving the Tax System**

The federal government needs to show flexibility in the way it deals with provinces in shared tax areas, like the personal income tax.

While the provinces and the federal government are supposed to act as partners in the tax collection agreement, the federal government often makes unilateral changes to these shared tax arrangements. These can affect the provinces without their agreement.

Ontario needs to be able to ensure that hidden tax increases are not built into the tax system and that taxes, once down, stay down. Ontario needs the flexibility to ensure that its tax system rewards risk-taking and creates jobs.

Changes are needed to make these agreements work as a real partnership.

---

There are substantial costs to Ontario taxpayers in having the federal government act as the tax collector. For example, the federal government collects over \$1.5 billion in taxes from Ontario taxpayers on behalf of Ontario before sending any tax money to Ontario. That means extra interest costs for Ontario taxpayers. We estimate that these costs are well over \$100 million each year. We do not believe that this is a cost our taxpayers should bear.

Further, the federal government can and has refused to make changes that Ontario has requested that affect only Ontario's taxes.

- ◆ When we asked that it administer a tax credit to restore the treatment of gifts to Crown Foundations, it said no.
- ◆ When we asked that it include an easily accessed check-off box for those wishing to donate their tax refund to lower the debt, it said sorry, no room.
- ◆ When we asked for a simple, easily understood design for administering the Fair Share Health Care Levy, as we set out in the Common Sense Revolution, it said not now.

The federal government has not addressed these concerns.

Unless the federal government is prepared to address these inequities, Ontario will have to seriously consider withdrawing from the current arrangement. We have already begun to seek expert advice on this matter to protect Ontario taxpayers' best interests.

## **LESS GOVERNMENT**

### **Who Does What**

In January, the Ontario Government proposed a new arrangement for provincial-municipal responsibilities. This plan was designed to bring fairness to the funding of education in Ontario and to improve the quality of education by providing a fair distribution of funding across the province.

---

### Bringing Tax Fairness to the People of This Province

In proposing its arrangement, the Government had several objectives in mind:

- ◆ to reduce taxes by ending the spiralling costs of education in the Province;
- ◆ to reduce taxes by rationalizing the delivery of services between the provincial and municipal governments; and
- ◆ to bring tax fairness to the people of this Province regardless of the municipality in which they live.

This Government clearly stated these objectives and indicated that we were willing to listen to other ways of achieving them. We said, on page 20 of the Common Sense Revolution, that “we are unconditionally committed to reaching our goals, but we are very open to discussing how we get there. If there are better ideas out there about how to cut spending, reduce waste and improve efficiency, we want to hear them”.

Following several months of discussions, municipal representatives offered an alternative solution based on a coalition of several groups reflecting a broad cross-section of interests. We have listened.

Last Thursday, the Government accepted the municipal alternative and will now proceed with the necessary implementation.

### **A Hand-Up, Not a Hand-Out**

Part of our plan to reduce the role and size of government is getting people off welfare and into work.

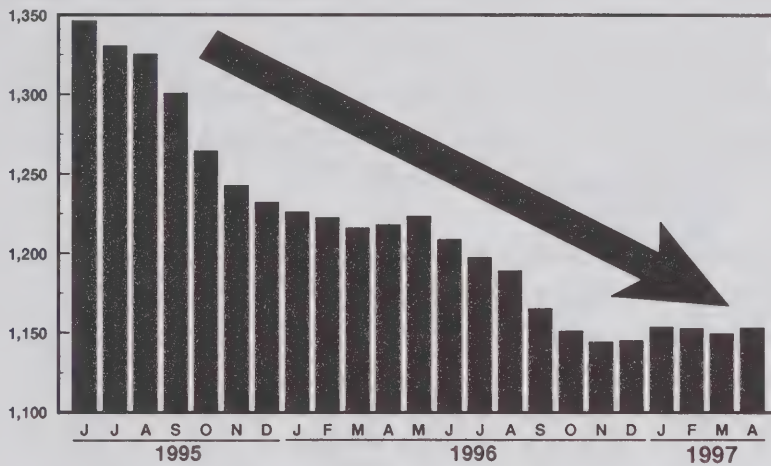
This Government has increased the incentive to work, reduced benefits to realistic levels, introduced mandatory workfare and cracked down on welfare fraud.

Since June of 1995, the welfare caseload in Ontario has fallen by 14.4 per cent: 193,000 fewer people rely on social assistance today than when this government took office.

---

## 193,000 Off Welfare in 22 Months

Number of People on Welfare (Thousands)



Source: Ontario Ministry of Community and Social Services

**193,000 Fewer  
People Relying on  
Social Assistance**

## Open and Accountable Government

My colleague, Bart Maves, MPP for Niagara Falls, has introduced legislation to improve accountability in the public sector.

With the benefit of his advice and comments, I will introduce the Public Sector Accountability Act.

This Act will require that organizations:

- ◆ report their financial activities in accordance with the recommendations of the Canadian Institute of Chartered Accountants;
- ◆ adopt policies that ensure that the private sector has an open opportunity to compete to provide services to their organizations; and
- ◆ adopt and publicly report on organizational performance using private and public sector benchmarks.

*Budget Paper B contains further details of this initiative.*

**Improving  
Accountability in  
the Public Sector**

## CUTTING TAXES AND CREATING JOBS

### Making the Tax System Fair

Cutting taxes and ensuring that taxpayers receive efficient and effective public services is an important part of tax fairness. It is also essential that people pay their fair share of taxes so that the burden is not passed to their neighbours.

The underground economy is one way in which some try to avoid paying their fair share. In the last year, we have added 191 audit and collections staff to improve the integrity of our tax system and to make sure that taxes are paid if they are owed. They are expected to recover \$80 million a year by 1998-99.

### Dealing with the Underground Economy and Improving Tax Fairness

We will continue to deal with the underground economy and improve tax fairness.

Today, I am announcing further actions which are expected to result in improved collections of up to \$100 million per year by fiscal year 2000-01.

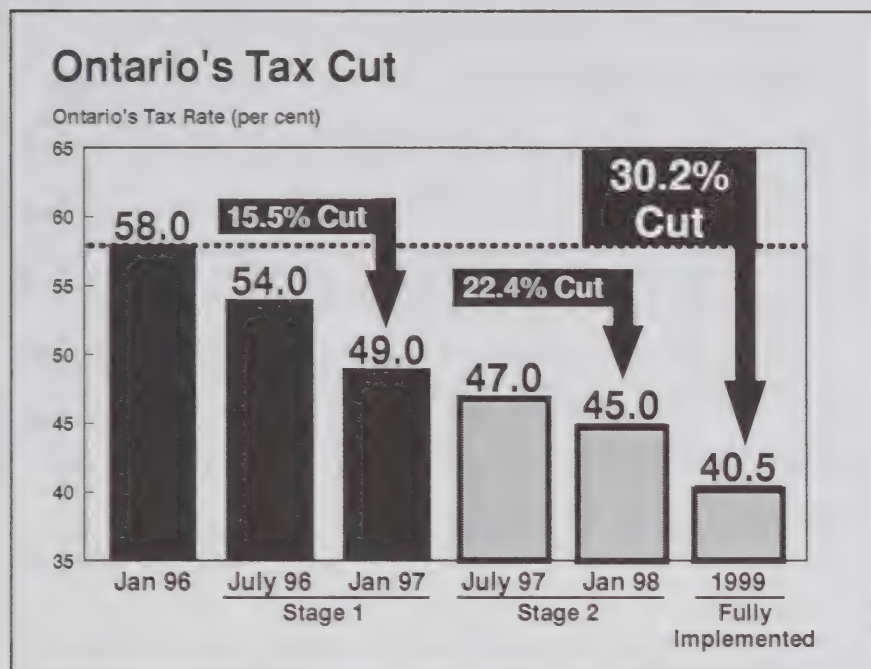
Further amendments will be made to improve tax enforcement and modernize and simplify the tax system and streamline the operations of government.

I have asked my colleague and new Parliamentary Assistant, Bill Grimmett, MPP for Muskoka-Georgian Bay, to look into ways to simplify administrative procedures for small business.

*Details of tax measures are provided in Budget Papers B and C.*

## Our Plan to Cut Taxes and Create Jobs

A tax cut is the best job creation program.



Delivering the  
Tax Cut

We have promised to cut personal income tax rates by 30 per cent over three years to create jobs. Today we are delivering the next two steps of that tax cut.

Effective July 1, Ontario's personal income tax rate will be reduced to 47 per cent of Basic Federal Tax from the current 49 per cent.

We will cut taxes again on January 1, 1998. The income tax rate will be reduced further, to 45 per cent.

This means that Ontario's rate of income tax will have been reduced by 22.4 per cent since 1995.

In last year's Budget, I announced a three-year plan to cut the Employer Health Tax by completely exempting the first \$400,000 of payroll from the EHT. This marks the second year of our plan and when fully implemented on January 1 of 1999, 270,000, or 88 per cent of Ontario employers will no longer have to pay this job-killing payroll tax.

## **Our Tax Cutting Plan is Working**

The benefits of our plan to cut taxes are clear.

- ◆ 91 per cent of all taxpayers will see an Ontario tax cut of 30 per cent or greater.
- ◆ All taxpayers with incomes of \$60,000 or less will see their Ontario taxes fall by 30 per cent or more.
- ◆ This means that, with the cuts announced today, an autoworker earning \$84,000, will get a tax cut of \$1,875. When the tax cut is fully implemented, this same auto worker would save \$2,505, a tax reduction of 25.4 per cent.

The best job creation program is a tax cut. This is our plan and it is working.

## **CONCLUSION**

This Budget continues the implementation of the government's plan.

This Government is committed to doing what it said it would do. Such commitment requires the strong leadership and courage of conviction that Premier Mike Harris exemplifies. His direction and foresight have been instrumental in developing this plan.

### **On Track for a Balanced Budget**

The plan keeps us on track for a balanced budget in 2000-01 and makes government more accountable to taxpayers.

It invests in the economy by helping small and medium size businesses in communities across Ontario get access to the financing they need to grow and create jobs.

This plan makes record investments in research and development to create jobs for the future. It establishes a stronger partnership in Ontario between the private and public sector, creating a

powerful force for innovation and prosperity. It builds, in Ontario, the foundation for the most competitive R&D in the world.

It promotes growth of agricultural exports, job creation and economic development in Ontario's rural communities.

It makes communities safer throughout Ontario by protecting our children and our neighbourhoods.

Families are an important part of our community. This Budget assists hard working families throughout Ontario. It provides help to many more young families with child care expenses.

This plan invests in education. It invests where the money is needed - in the classroom. It provides for renewal of the teaching profession. It helps students realize their full academic potential.

The plan ensures our commitment to provide quality health care for all Ontarians now and for the future.

It allows taxpayers to keep more of their hard-earned money by cutting personal income taxes. In total we have cut taxes 30 times in less than 2 years.

We have an obligation to the future of Ontario. My daughter Natalie and her younger generation will accomplish things that some never imagined possible.

Our plan creates jobs for the future.

Our plan lays the foundations for a better tomorrow by investing in the future today.

Investing in the  
Future



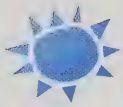






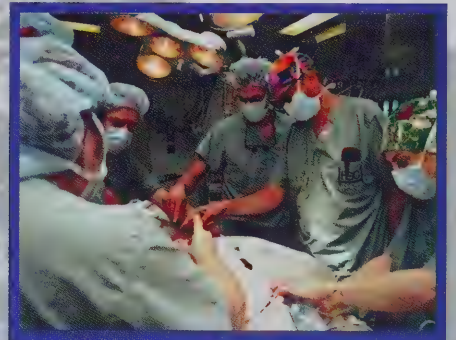
Investing in the

# Future



EDUCATION

HEALTH CARE



JOBS

SAFE COMMUNITIES



# ONTARIO

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# 1997 Ontario Budget

## Budget Papers

*Investing in the Future*



**The Honourable Ernie Eves, Q.C.**  
**Minister of Finance**



Ontario



# **1997 Ontario Budget**

## **Budget Papers**

*Investing in the Future*

**Presented to the  
Members of the Legislative Assembly of Ontario by  
The Honourable Ernie Eves, Q. C.  
Minister of Finance  
May 6, 1997**

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ISBN 0-7778-6329-4

Back cover design: Dick Derhodge

Photos courtesy of South Simcoe Public School, The Hospital for Sick  
Children, Spar Aerospace Limited, Dick Derhodge and Eric Hutton.

*Le document Budget de l'Ontario 1997 : Documents budgétaires  
est disponible en français.*

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## Investing in the future

*Under the leadership of Premier Mike Harris, our plan allows Ontarians to keep more of their hard-earned money; it invests in health care, classroom education and safe communities; it reduces the size of government and ensures that taxpayers' dollars are spent more wisely.*

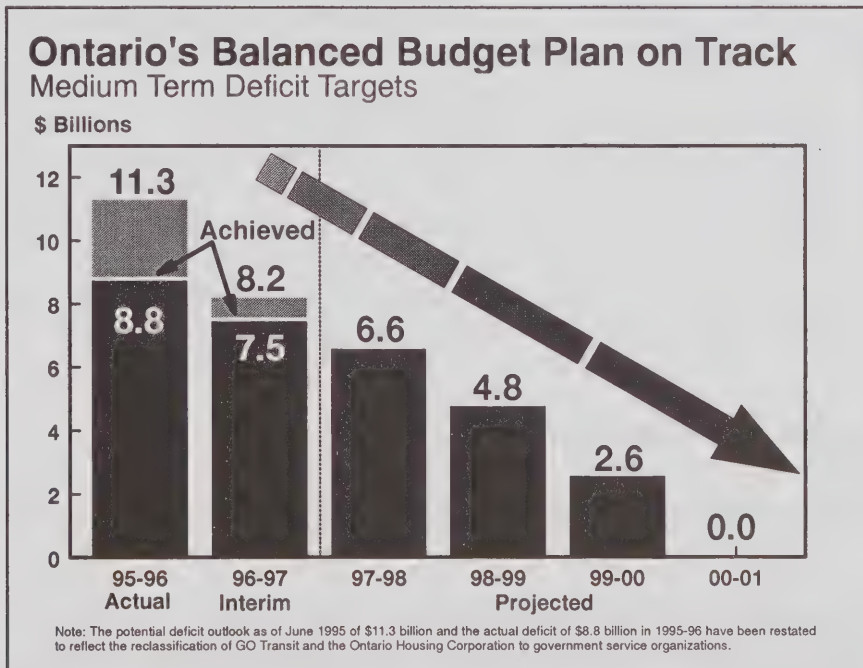
*Our Government is turning the economy around. We recognize that all Ontarians deserve opportunity and a job, with the personal dignity and security that a job brings.*

*Ontario Finance Minister Ernie Eves*

## Balancing the Budget

The deficit for the fiscal year 1996-97 will be \$7.5 billion, an improvement of \$710 million over the 1996 Budget plan.

For the fiscal year 1997-98, our Budget plan projects a deficit of \$6.6 billion. The deficit will be reduced further to \$4.8 billion next year or some 58 per cent less than the deficit we faced on taking office.



Our Balanced Budget Plan will ensure that the deficit is eliminated by the year 2000-01.

Once the budget is balanced, we will put in place a program to cut Ontario's debt to ensure that our children have the opportunities they deserve.

## **Ontario's Economy – Strong, and Getting Stronger**

Ontario's economy is responding to the Government's plan to make Ontario, once again, a province of jobs and opportunity.

The housing market continues to strengthen and the number of housing starts is projected to rise by 29.1 per cent in 1997.

In March alone, the Ontario economy created 45,600 new jobs. Reflected in this increase is the largest monthly private sector job gain on record.

Private sector economists have identified the rising trends in consumer spending, housing activity, new orders and overtime activity as strong leading indicators of accelerating job growth.

The Royal Bank, for example, is predicting an increase of 700,000 net new jobs in Canada over the next two years. According to the Bank, Ontario is expected to account for well in excess of its normal share of that job growth.

While this pace of job creation is an improvement, it's not acceptable to this Government. Ontario's economy can and will do better.

*We need to continue to cut taxes. We need less government. We need to continue to reduce the regulation and red tape that discourage businesses and we need to continue to create an environment that encourages communities and small businesses to grow and create jobs.*

*Ontario Finance Minister Ernie Eves*

## **Investing for jobs and growth**

### ***Helping Communities to Grow and Small Business to Create Jobs***

Small businesses create jobs - more than any other sector. As noted by the Committee on Small Business Access to Capital, small businesses need better access to financing to help them grow and create jobs.

The Government will help small businesses by creating Community Small Business Investment Funds. The Government will introduce legislation to make these funds eligible as investments for Labour Sponsored Investment Funds and the small business investment tax credit for banks.

Enterprise Centres for Small Businesses will provide new and growing businesses with coaching and mentoring in business planning, marketing, accounting and overall business strategy.

Banks also have a role to play in small business development. The small business investment tax credit for banks, announced in the 1996 Budget as a temporary incentive, allows banks to earn back a surtax by investing in small business. To help increase small business access to financing, we are announcing a number of measures to enrich this earn-back program. The credit will also be made permanent.

The Canadian Imperial Bank of Commerce has taken a leadership role in providing loans to small businesses at below-prime interest rates. To encourage other financial institutions to follow, the ability to earn back taxes will be extended to encourage loans of \$50,000 or less to small businesses at interest rates below bank prime.

### ***Investing in Rural Communities***

To create jobs in rural Ontario, we are announcing a three-year, \$30-million Rural Job Strategy. As part of this strategy, 3,000 jobs for youth will be created in rural Ontario this summer.

### ***Investing in Jobs for Young People***

This Budget provides an additional \$6 million to help 40,000 young people get needed work experience and income this summer.

To help graduates struggling to get experience in a tough job market, the Government will provide a 10 per cent tax credit to both large and small private-sector employers to create 45,000 internship jobs over the next three years.

Working in co-operation with banks and private sector business organizations, the Government will contribute \$2.5 million toward business start-up loans for unemployed youth. These loans will support the creation of more than 3,000 jobs.

The Government will also support jobs for youth in key sectors of the economy by expanding the successful Co-operative Education Tax Credit announced in last year's Budget.

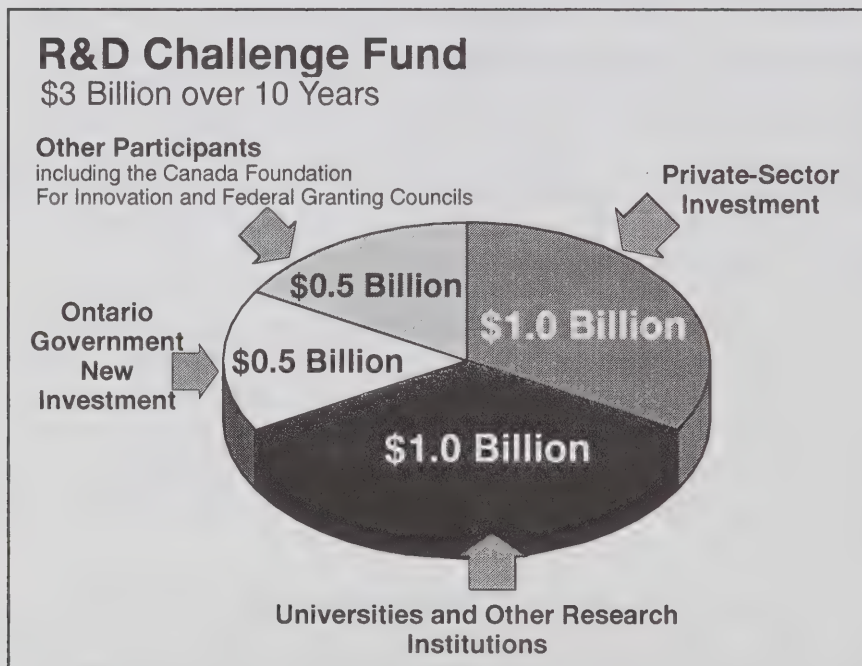
This measure will provide students enrolled in leading edge technology educational programs, such as software development, with a 10 per cent tax credit voucher for employers who hire them in jobs related to their program of study.

## Creating jobs for the future

*Keeping Ontario at the leading edge of science and technology will help the province create long-term jobs. We need to promote more collaboration and cooperation with the private sector and we need to stimulate greater competition for research excellence among Ontario's universities.*

*Ontario Finance Minister Ernie Eves*

To help the private sector take advantage of our world-class research capabilities in universities and other research institutions, the Government in announcing the creation of a 10-year, \$3-billion R&D Challenge Fund.



The province will contribute \$500 million in new funding to the R&D Challenge fund over the next 10 years.

The R&D Challenge Fund marks a new, competitively-based approach to research. All proposals to the R&D Challenge Fund will have to meet a market test linked directly to future economic growth and job creation, in the form of a one-third contribution from the private sector.

The Government will support its commitment to R&D through the Ontario Business-Research Institute Tax Credit for qualifying business-sponsored R&D performed by eligible universities, research hospitals, and other non-profit research centres. The Government will also extend the sales tax exemption for research and development equipment purchase to non-profit medical facilities, and will remove tax barriers to R&D.

## **Investing in Quality Health Care**

*We are making sure that the money we are allocating for health care provides services for patients and not for bureaucratic waste. By managing the system better, we are providing a higher quality, integrated community-based health care system for the future.*

*Ontario Finance Minister Ernie Eves*

### ***Record Investment in Health Care***

The Government is more than meeting its commitment to maintain health care funding at \$17.4 billion. For 1997-98, Ministry of Health program funding to improve the quality of care will exceed \$17.8 billion. As well, \$450 million will be invested in restructuring and \$242 million provided for capital construction bring the total funding for health care to \$18.5 million.

The recommendations of the Health Services Restructuring Commission will allow this province to put in place the most modern and effective health care system in this country.

The investments needed to achieve this goal are substantial. Over the next five years, \$2.7 billion will be invested in restructuring our community-based health care system. We are keeping the promise to reinvest.

### ***Managing Change to Ensure Better Services***

We will ensure that special skills and knowledge are available throughout Ontario by helping to create networks of information. These networks will make best practices and innovations available quickly and broadly, providing the knowledge needed by care-givers to help people across the province.

For example, Cancer Care Ontario will link and integrate cancer services throughout the province.

## Investing in Excellence in the Classroom

*From 1985 to 1995, school board spending grew by 82 per cent. School property tax revenues rose by more than 120 per cent. We know that this did not result from increasing enrolment, as that grew by only 16 per cent.*

*The solution for the problems in the school system is the same as it is for the province itself. We have to eliminate unproductive spending. We have to stop the uncontrolled growth in taxes. That is the problem. We are fixing it.*

*Ontario Finance Minister Ernie Eves*

We have committed \$650 million over the next two years to renew and build schools. School boards will be able to replace more than 1,000 portable classrooms with permanent facilities.

We are inviting the teaching profession to join us in providing early retirement benefit for teachers to renew the profession. As a result of this incentive, up to 6,500 new teachers would have the opportunity to bring their skills and energy to the classroom of this Province.

## Investing in college and university students

The Ontario Student Opportunities Trust Funds, established in last year's Budget, help good students who face financial barriers to get a college or university degree. Cash and pledges total over \$250 million. The Province will match this amount, creating an endowment of **half a billion dollars to assist students.**

Because they face special fundraising challenges, the Government is announcing that colleges of applied arts and technology can continue to receive pledges and donations until March 31, 1998.

Pilot project, the first of its kind, will help learning disabled students get the kind of meaningful help they need to make the transition to college or university. Dr. Bette Stephenson will head a task force to design and implement these project. We will provide \$30 million over the next five years to carry out this initiative and implement the recommendations of the task force.

Student loan support must better reflect the rewards that students realize from public investment in their education. We are committed to working with the federal government to implement an income-contingent student loan program for September 1998.

---

## Investing in Children and Families

Ninety thousand families and 125,000 children will benefit from a new child care tax credit to assist working families who are not benefiting from current institutional child care system.

This new system will provide more choice to parents and help child care providers make care more affordable. More families will receive assistance, with priority being given to families who need help to start or stay at work.

Ontario supports the inter-provincial initiative for a National Child Benefit. We will redirect \$150 million in provincial funds by expanding programs that help families with children to find and keep jobs.

We will enrich the Ontario Tax Reduction program to reduce taxes for 30,000 low-income individuals and families. Twenty thousand more individuals and families will pay no Ontario income tax as a result of this change.

In total, the Ontario Tax Reduction cuts taxes for 530,000 individuals and families eliminates Ontario income tax entirely for another 655,000 individuals and families.

## Supporting Safe Communities

Our plan places a high priority on improving safety in our communities and dealing with violent crime.

To complement the community safety initiatives of the police, the government will assist community groups through the Volunteer Linkages program to better screen and supervise volunteers.

The Minister Responsible for Women's Issues will be announcing a comprehensive strategy which will strengthen our efforts to prevent violence against women. We will spend an additional \$27 million over the next four years to support women and their families in breaking the cycle of violence.

To promote safety in our communities, The Government will work with municipalities to help them establish "community safety zones" -- for example, school zones and crossings, school bus stops, or areas of roadways with high accident rates. Fines levied for infractions in these zones would be doubled.

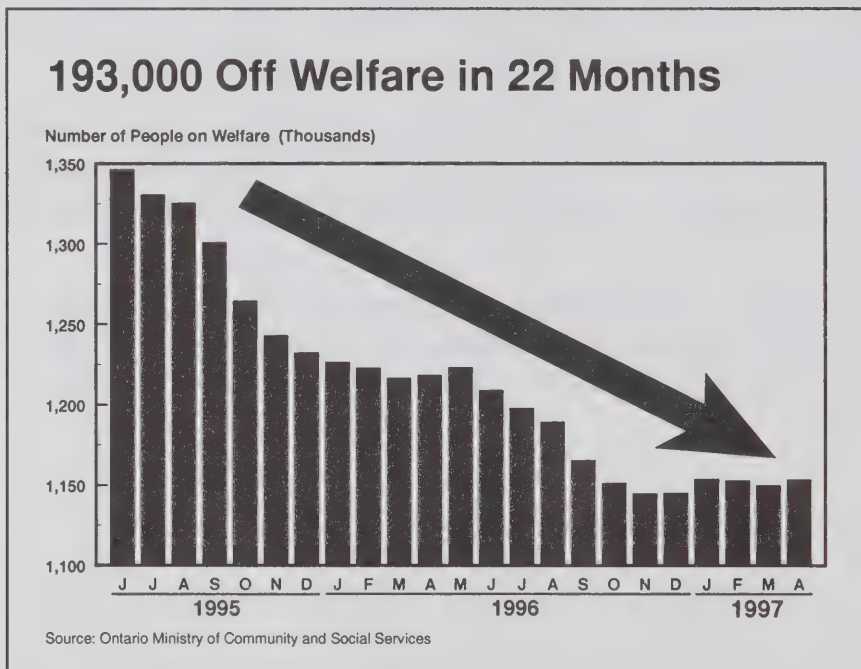
We will provide \$25 million over the next five years to improve the way police forces work together to investigate and apprehend serial predators.

## Less Government

Part of our plan to reduce the role and size of government is getting people off welfare and into work.

The Government has increased the incentive to work, reduced benefits to realistic levels, introduced mandatory workfare and cracked down on welfare fraud.

193,000 fewer people rely on social assistance today than when this Government took office.



To improve accountability in the public sector, the Government will introduce the Public Sector Accountability Act. This Act will require that public sector organizations:

- ◆ report their financial activities in accordance with the recommendations of the Canadian Institute of Chartered Accountants;
- ◆ adopt policies that ensure that the private sector has an open opportunity to compete to provide services to their organizations; and
- ◆ adopt and publicly report on organizational performance using private and public sector benchmarks.

---

## Cutting Taxes and Creating Jobs

We have promised to cut personal income tax rates by 30 per cent over three years to create jobs. The 1997 Budget delivers on the next two steps of that tax cut.

Effective July 1, Ontario's personal income tax rate will be reduced to 47 per cent of basic federal tax. On January 1, 1998, the income tax rate will be reduced further to 45 per cent.

This means that by next January, we will have cut Ontario's rate of income tax by 22.4 per cent since 1995.

The benefits of our plan to cut taxes are clear.

- ◆ 91 per cent of all taxpayers will see an Ontario tax cut of 30 per cent or more.
- ◆ All taxpayers with incomes of \$60,000 or less will see their Ontario taxes fall by 30 per cent or more.

## Conclusion

*This Budget continues the implementation of the government's plan.*

*The plan keeps us on track for a balanced budget in 2000-01 and makes government more accountable to taxpayers.*

*It invests in the economy by helping small and medium size firms in communities across Ontario get access to the financing they need to grow and create jobs.*

*This plan makes record investments in research and development to create jobs for the future.*

*It makes communities safer throughout Ontario by protecting our children and our neighbourhoods.*

*This Budget assists hard working families throughout Ontario. It provides help to many more young families with child care expenses.*

*The plan invests in education. It invests where the money is needed -- in the classroom.*

*The plan ensures our commitment to provide quality health care for all Ontarians now and for the future.*

*It allows taxpayers to keep more of their hard-earned money by cutting personal income taxes. In total we have cut taxes 30 times in less than two years.*

*Our plan creates jobs for the future.*

*Our plan lays the foundations for a better tomorrow by investing in the future today.*

*Ontario Finance Minister Ernie Eves*

# Paper A

## Ontario's Economic Outlook



## Ontario at a Glance

Per cent	1996	1997	1998	1999
Real GDP growth	2.0	3.2	3.2	3.3
Employment (thousands)	5,311	Up to 5,437	Up to 5,634	Up to 5,801
Unemployment rate	9.1	8.4-8.7	7.9-8.6	7.7-8.2
CPI inflation	1.6	1.9	1.9	1.9

Sources: Statistics Canada and Ontario Ministry of Finance

Private-sector forecasters expect the Ontario economy to accelerate and to grow more rapidly than the Canadian economy.

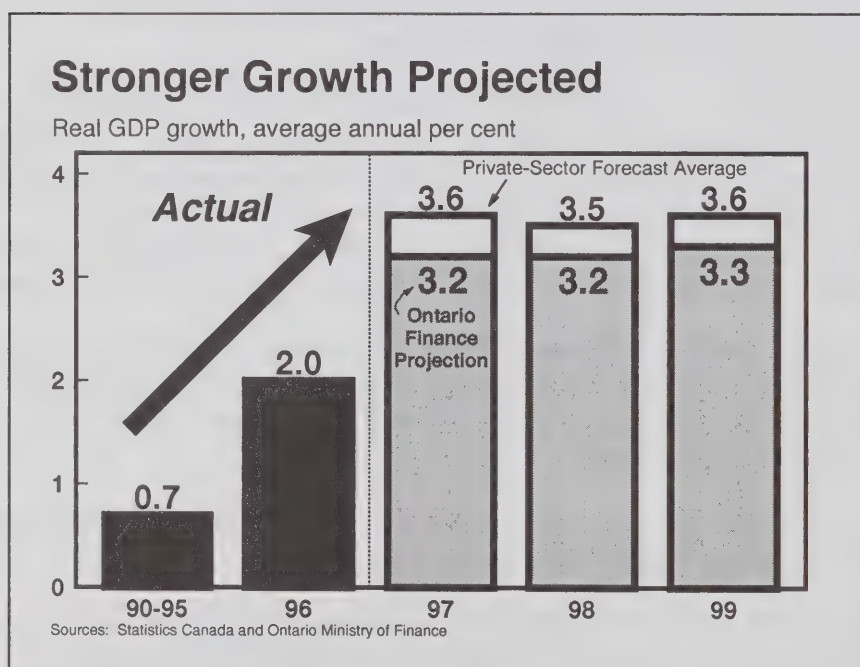
- ◆ In a recent report, Dun & Bradstreet Canada concluded: "It is not surprising that Ontario continues to lead the nation in optimism and we fully expect this trend to continue in the long term."
- ◆ In its latest quarterly report on the outlook for Canadian provinces, Data Resources International (DRI) forecasts that Ontario will lead all regions of North America in economic growth between 1996 and 2001, spurred by private-sector growth.
- ◆ A headline in the Conference Board of Canada's latest provincial outlook announces "Ontario to Lead Growth in 1997." According to the Conference Board, "all the fundamental ingredients for a strong pick-up in consumer spending are now combined: better employment growth, improving consumer confidence, personal income tax cuts, modest wage increases and low interest rates."
- ◆ This optimism is echoed by the forecasters of ScotiaBank who observe that "Ontario's economy is shifting into higher gear as residential construction and business investment add to the impetus from exports."
- ◆ The Royal Bank of Canada forecasts that Ontario will add 309,000 jobs from the end of 1996 to the end of 1998.

This paper presents cautious projections for the Ontario economy that are based on prudent assumptions about key features of the external environment, including interest rates, exchange rates and the performance of the U.S. economy. These projections have been adopted to provide a prudent fiscal plan and should not be interpreted as targets for the Ontario economy.

## Highlights

Following a half-decade of limited and sporadic growth, domestic spending has entered a period of strong and sustained growth. This growth reflects the impact of personal income tax cuts, lower interest rates and growing consumer and business confidence. Private-sector forecasters expect Ontario to grow more rapidly than the rest of Canada and all of the G-7 countries over the next three years.

- ◆ Consumer spending will continue to strengthen as real disposable income increases, reflecting income tax cuts and solid job gains.
- ◆ The housing market is buoyant and is projected to lead growth over the next several years.
- ◆ Business investment will also be a leading contributor to growth providing concrete evidence of renewed business confidence.
- ◆ Ontario's exports will continue to rise faster than the overall economy as exporters take advantage of sustained growth in the U.S., a competitive exchange rate and low production costs.



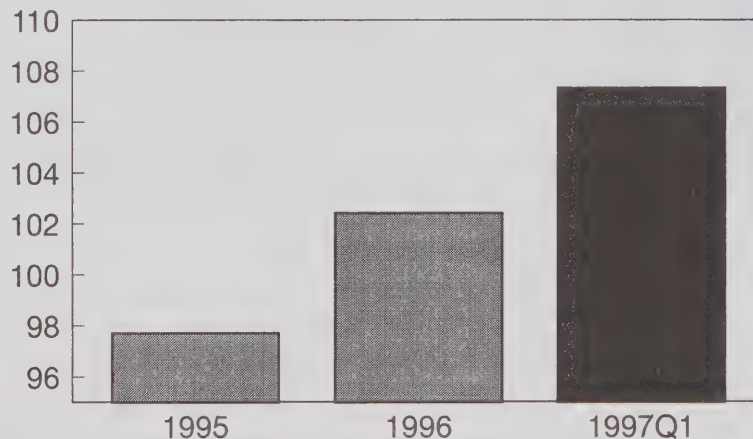
## Recent Signs of Economic Strength

The Ontario economy is entering a period of vigour and renewed optimism as continuing strength in exports and business investment are enhanced by healthy gains in consumer spending, soaring housing sales and rising construction activity. The Ontario economy rose at an average annual rate of more than 3 per cent over the third and fourth quarters of 1996.

- ◆ In the first quarter of 1997, Ontario housing starts were up 54.1 per cent from the same period a year earlier. For the year 1996, housing starts increased by 20.2 per cent. Toronto-area home resales were up 26.1 per cent in the first four months of 1997, from the same period a year ago.
- ◆ Ontario department store sales continued their healthy performance, rising 13.6 per cent from a year earlier in March.
- ◆ Businesses plan to raise current-dollar investment in plant and equipment in Ontario by 4.5 per cent in 1997, according to the latest survey from Statistics Canada. This follows a 10.2 per cent rise in 1996, for a total increase of 15.2 per cent over the two-year period.
- ◆ Over the first two months of 1997, Ontario international merchandise exports were up 3.5 per cent from a year ago, mainly reflecting higher exports of automotive products and industrial goods.
- ◆ Ontario's agricultural and food exports climbed by 11.7 per cent in 1996, to a record total of \$5.3 billion.

### Consumer Confidence Rising

Ontario Consumer Confidence Index (1991=100)



Source: Conference Board of Canada

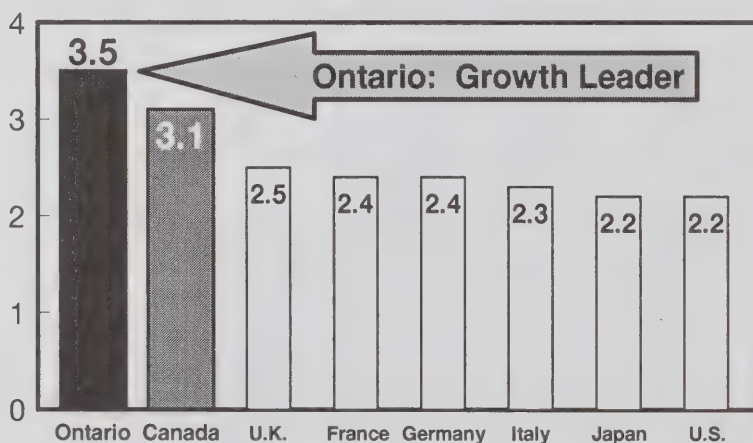
## Sustained Growth in Ontario's Key Trading Partners

Sustained but slower economic growth in the U.S. and Ontario's strong competitive position support export growth. Moderate expansion in the rest of the industrialized countries will further enhance Ontario exports of goods and services.

- ◆ The U.S. is Ontario's most important export market, accounting for about 90 per cent of our international merchandise exports. Private-sector forecasters, on average, expect rising U.S. interest rates to slow growth from near 3 per cent in 1997 to a more sustainable rate of 2 per cent in 1998. This should keep inflationary pressures in check and provide stability to Ontario's export growth in the medium term.
- ◆ Modest economic growth in western Europe is expected to continue over the next few years, as European Union countries continue to prepare their economies for monetary union.
- ◆ Although recent weakness in the yen is boosting Japanese exports, continuing restructuring in the financial sector and fiscal tightening are expected to keep overall growth modest in Japan.

### Ontario's Growth Leads G-7 Countries

Projected average annual real GDP growth, 1997-2001 (per cent)

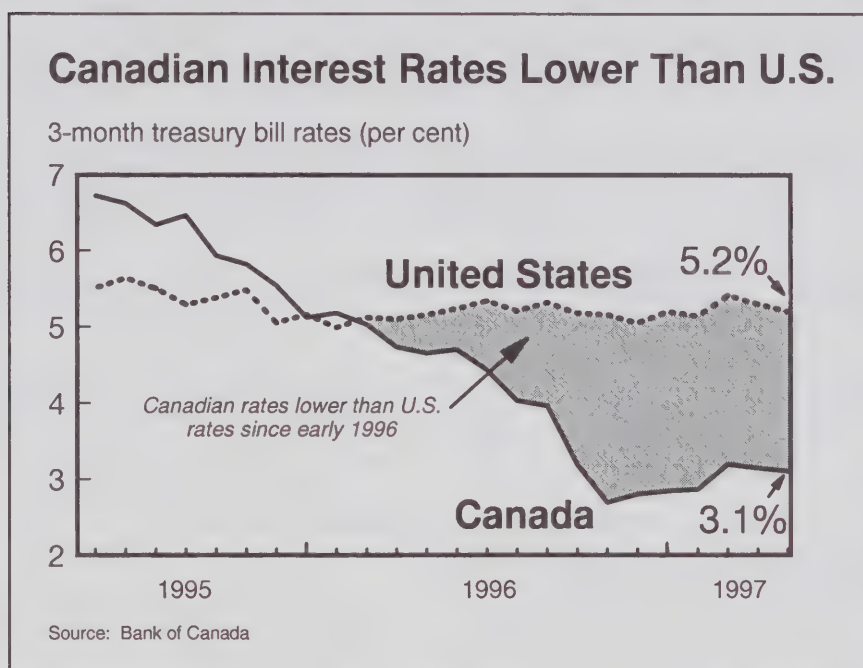


Sources: Consensus Forecasts and Ontario Ministry of Finance Survey of Forecasts (April 1997)

## Low Interest Rates Spur Stronger Growth

Low inflation and reduced deficits by Ontario and other governments have set the stage for sustained low interest rates.

- ◆ Lower interest rates stimulate the economy with a lag of between 12 and 18 months. The real easing in monetary conditions started in late 1995 and continued through to late 1996. Given the long lags, this will continue to provide a substantial boost to the economy over 1997 and 1998, stimulating output and job creation.



- ◆ Private-sector forecasters expect a modest rise in short-term Canadian interest rates over 1997 due to pressure from higher U.S. rates. According to U.S. forecasters, short-term rates in the U.S. are expected to rise between 50 to 100 basis points, sufficient to slow U.S. economic growth to a sustainable 2 per cent annualized pace.

### Cautious Interest Rate Assumptions

(Annual average per cent)

	1996	1997	1998
<b>3-month treasury bills</b>			
Private-sector survey average	4.2	3.3	3.7
Ontario's prudent assumption		4.0	4.7
<b>10-year government bonds</b>			
Private-sector survey average	7.2	6.7	6.3
Ontario's prudent assumption		7.4	7.3

Sources: Bank of Canada, Ontario Ministry of Finance and Ontario Finance Financial Market Survey (April 1997)

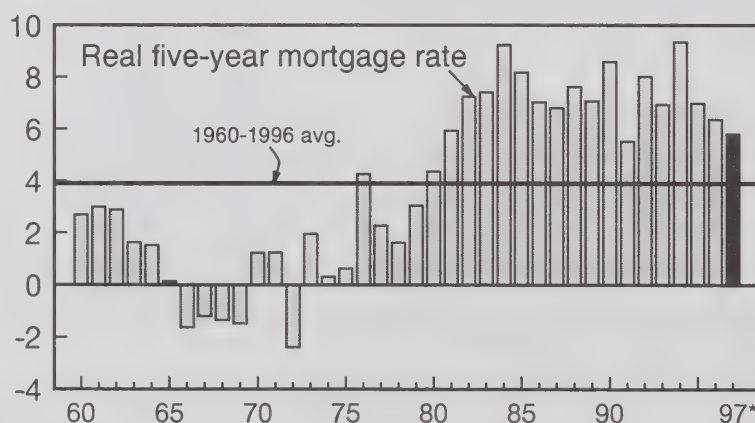
## Real Interest Rates Remain Too High

While Canadian interest rates, particularly short-term rates, have come down substantially, inflation has also fallen sharply. Real interest rates, adjusted for inflation, remain high by historic standards.

- ◆ Three-month treasury bill rates have fallen from a peak of 13.7 per cent in 1990 to 3.1 per cent in early May of this year. They have been below corresponding rates in the U.S. since March 1996 and currently are about two percentage points lower. However, in real terms, the difference is much smaller. Real three-month treasury bills in Canada, measured as the nominal rate less the CPI inflation rate, are currently close to 1.2 per cent, about one percentage point lower than in the U.S.
- ◆ Real 10-year government of Canada bonds are currently about 4.7 per cent, high by historical standards. Over the 1960 to 1996 period, real ten-year government of Canada bonds averaged only 3.6 per cent.
- ◆ Real five-year mortgage rates are currently almost two percentage points higher than the long-term average.
- ◆ With inflation expected to remain low and significant unused capacity, an early rise in interest rates could well dampen growth prospects.

### Real Long-Term Interest Rates Remain Historically High

Per cent



\*May 1997

Sources: Statistics Canada, Bank of Canada and Ontario Ministry of Finance

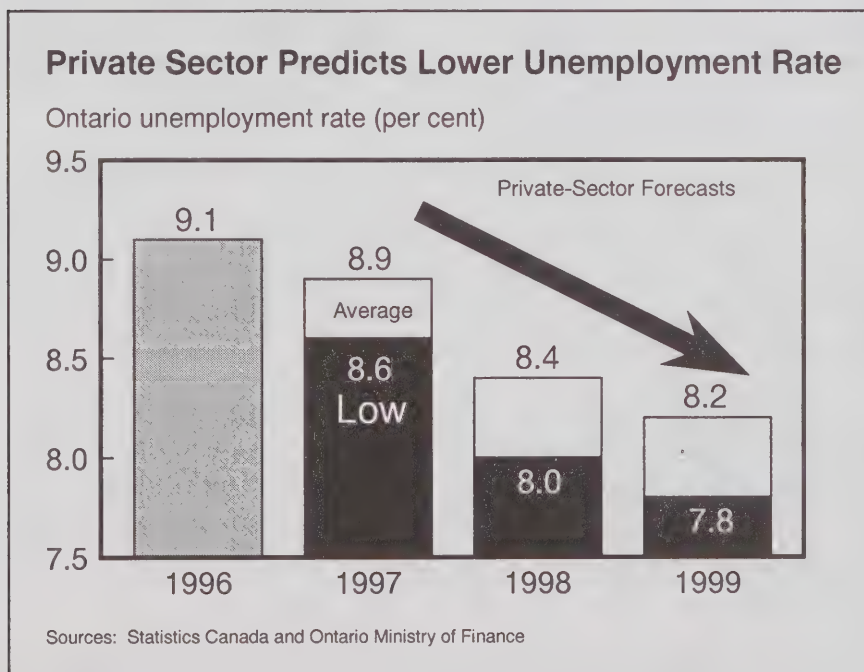
## Job Creation Accelerating

Lower taxes, the strong competitive position of Ontario producers and a renewed spirit of enterprise are leading to accelerating private-sector employment growth.

- ◆ Increasing confidence and after-tax income have produced accelerating housing and consumer activity in Ontario. This is leading to increased employment in construction.
- ◆ Business and personal services will continue to lead job creation.
- ◆ Financial services will rebound with the robust housing market and rising demand for diverse financial assets.
- ◆ Manufacturing will remain strong with recent auto plant expansions and continuing strength in U.S. demand.

Private-sector economists expect the unemployment rate to decline despite the increase in labour force growth as individuals return to the workforce, encouraged by improving job prospects.

- ◆ The average private-sector forecast for 1999 is an 8.2 per cent unemployment rate. Some forecasters are more optimistic. For example, both University of Toronto and DRI project 7.8 per cent unemployment in 1999.



## Housing Leads Domestic Spending

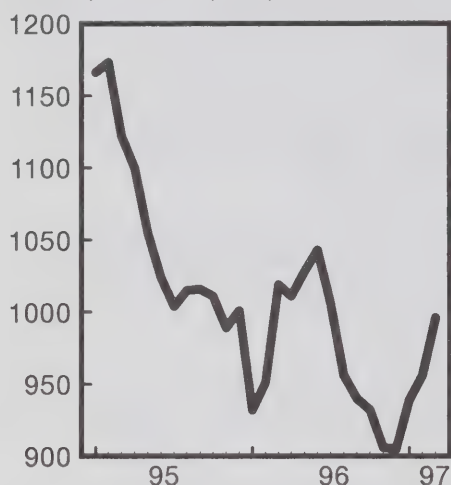
The housing market is leading the expansion of the domestic economy, with strong growth in sales of new and existing homes and housing starts.

Ontario home resales are up 17.3 per cent so far in 1997 compared to the same period in 1996. Toronto-area new home sales are up 69.6 per cent. Ontario housing starts are up 54.1 per cent so far this year.

### Low Costs Boost Housing Market

#### Carrying Costs for an Average-Priced Ontario Home

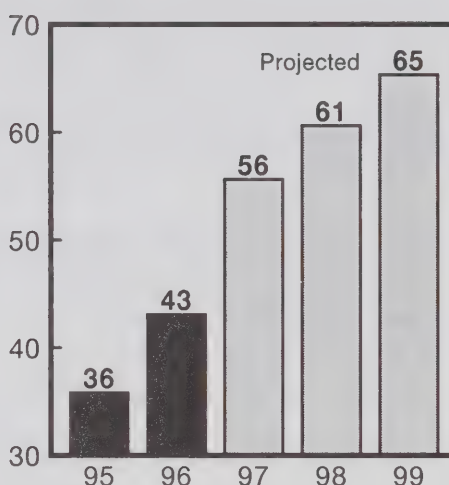
Dollars per month (principal & interest)



Sources: CMHC and Ontario Ministry of Finance

#### Ontario Housing Starts

Thousands



- ◆ So far in the 1990s, housing markets have been much weaker than underlying demographic growth would suggest. This pent-up requirement for housing provides the basis for a sustained recovery of the residential construction sector.
- ◆ The Land Transfer Tax (LTT) rebate for first-time buyers of new homes and tax cuts will support demand and create jobs. Over 12,000 refunds were paid to first-time buyers over the past 12 months. The LTT rebate was extended for another year on March 31st. Each new home built in Ontario generates 2.8 person-years of employment.
- ◆ Ontario housing starts are expected to rise to 55,600 in 1997, 60,600 in 1998 and 65,300 in 1999. Residential investment in Ontario is projected to increase by 16.0 per cent in 1997 and by an average of 9.3 per cent in 1998 and 1999.

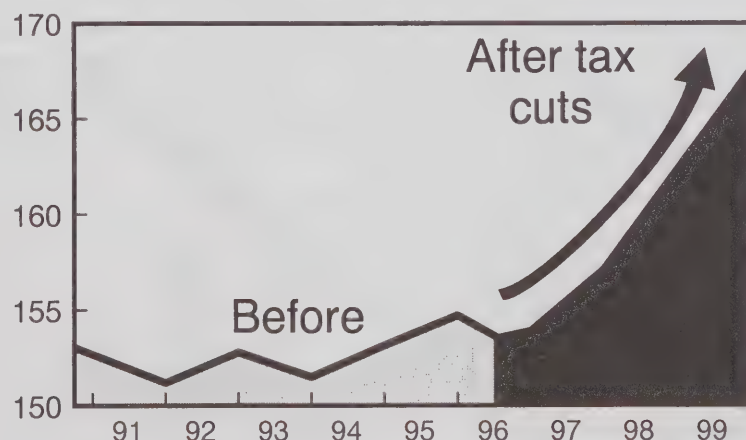
## Tax Cuts and Rising Income Boost Consumer Spending

Consumer spending is expected to strengthen over the 1997-1999 period, stimulated by lower taxes, stronger job creation, rising wages and low interest rates.

- ◆ Real consumer spending growth is projected to strengthen from 1.5 per cent in 1996, to 2.7 per cent in 1997 and an average 3.2 per cent in 1998 and 1999. Consumer spending in the first half of the 1990s rose by an anemic 0.8 per cent per year. The rebound in consumer spending is supported by personal income tax cuts which boost take-home pay, as well as increased confidence in job prospects and sustained low interest rates.
- ◆ Ontario's tax cuts and strong job gains are forecast to boost real personal disposable income growth to an average 3.1 per cent in 1998 and 1999, up from 2.2 per cent in 1997. This is a marked improvement from the 1990 to 1995 period when real disposable income rose at an average annual rate of only 0.1 per cent.
- ◆ Stronger disposable income growth and low interest rates will ease the debt burden of households. Mortgage and consumer debt servicing costs currently eat up 9.1 per cent of personal disposable income. This ratio will fall as debt is refinanced and new borrowing occurs at reduced interest rates.

### Tax Cuts Boost Real Take-Home Pay

Real personal disposable income (\$1986 Billions)



Sources: Statistics Canada and Ontario Ministry of Finance

## Buoyant Investment Supports Sustained Growth

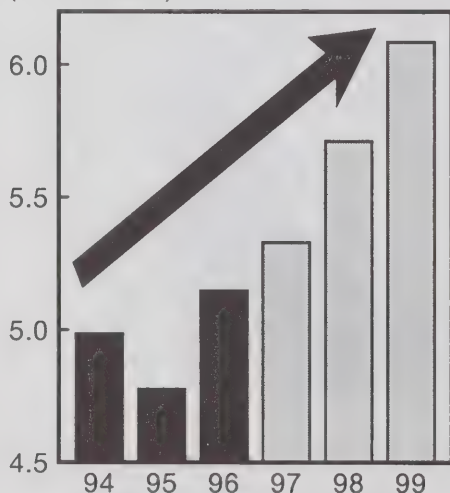
Investment in Ontario has increased sharply as firms upgraded equipment and added capacity to meet the challenges of globalization and freer trade.

Capital investment not only increases the physical capacity to produce goods and services but also enhances Ontario's competitive position. By employing the latest technologies and processes, investment in new machinery and equipment enables business to lower costs, improve quality and increase market share. Investment is the catalyst to increased productivity generating higher profits and higher labour income.

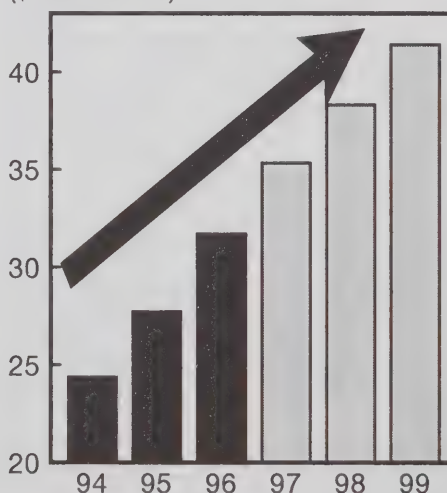
- ◆ Ontario real business investment in machinery and equipment rose an average 15.0 per cent per year over the 1994 to 1996 period. It is projected to increase by 11.4 per cent in 1997 and expand by an average of 8.3 per cent in the 1998 and 1999 period.
- ◆ Following six consecutive years of decline, real investment in commercial, industrial and institutional construction rose 7.7 per cent in 1996 and is expected to rise by an additional 18.2 per cent over the next three years.
- ◆ Major investment projects, for example, are being carried out by Chrysler, Toyota and Honda.

### Ontario Real Business Investment Growing

**Commercial, Industrial & Institutional Construction**  
(\$1986 Billions)



**Machinery and Equipment Investment**  
(\$1986 Billions)



Sources: Statistics Canada and Ontario Ministry of Finance

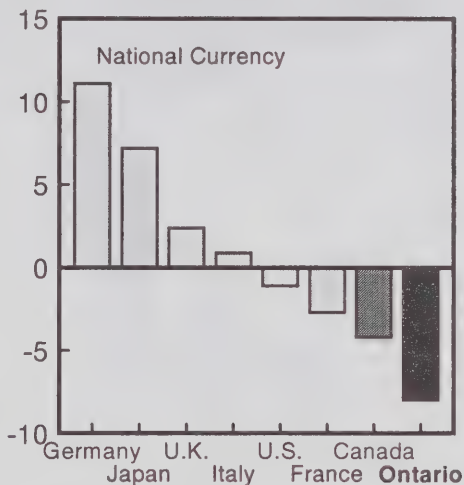
## Competitive Position Supports Job Creation and Growth

Canadian industries have become highly competitive. In the early 1990s, Canadian producers were burdened with high operating costs, high commercial and industrial rents and exorbitant taxes. Today there is ample and affordable commercial and industrial space, labour costs are more competitive and taxes are lower.

### Ontario Highly Competitive

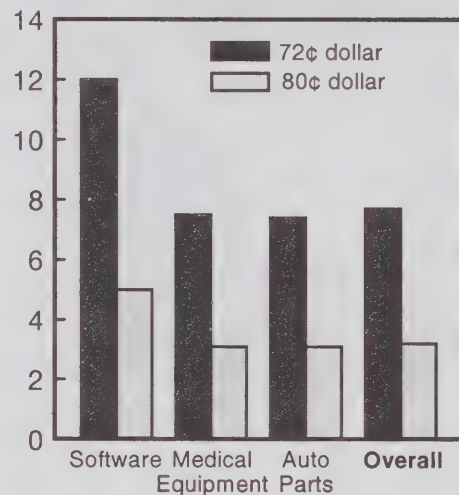
#### Manufacturing Unit Labour Costs

Per cent change 1991-1995



#### Canada Cost Advantage by Industry

Per cent advantage over the U.S.



Sources: U.S. Bureau of Labor Statistics, KPMG Canada and Ontario Ministry of Finance

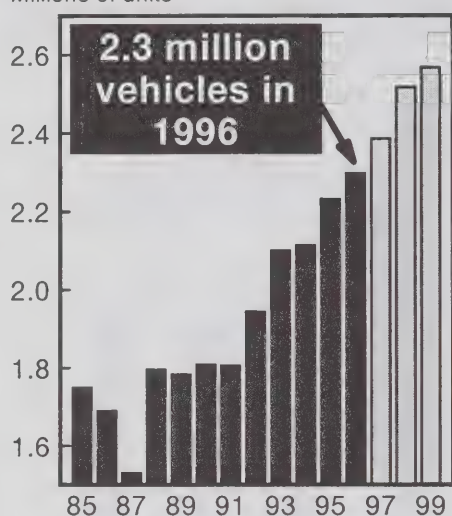
- ◆ Ontario's manufacturing unit labour costs declined 8.0 per cent between 1991 and 1995 (the latest year for which data are available), better than any of the G-7 countries. Unit labour costs measured in U.S. dollars declined by 23.2 per cent.
- ◆ Industrial land costs, construction costs, wages and benefit costs, notably for health care, and payroll taxes are lower in Canada than in the U.S. A recent study conducted by KPMG Canada shows that Canada has a cost advantage over the U.S., our major trading partner, at exchange rates of up to 87 cents U.S. With a 72 cent dollar, Canada has an overall 7.7 per cent cost advantage and even with an 80 cent dollar, Canada would have a 3.2 per cent cost advantage.
- ◆ Low inflation, falling government deficits and an improving current account balance will support a rising dollar over the medium term, despite some near-term volatility as financial markets adjust to higher U.S. interest rates.

## Increasingly Export-Oriented Economy

Ontario's economy is increasingly export-oriented. International exports were equivalent to 45.8 per cent of GDP in 1996, up from 28.5 per cent of GDP in 1989. Ontario's export-to-GDP ratio is higher than any G-7 country.

### Record Auto Production Spurs Growth

**Ontario Auto Production**  
Millions of units



**Share of North American Auto Sales**  
Per cent



Sources: DRI/McGraw-Hill and Ontario Ministry of Finance

The auto sector plays a fundamental role in Ontario's growth and export performance. Autos contributed 5.2 per cent to overall output in 1996, and accounted for about 45 per cent of total exports.

- ◆ North American auto sales are expected to grow modestly over the next two years. Ontario auto production, however, is expected to rise faster than total sales and capture a growing share of North American markets. Added capacity will ensure continued momentum in Ontario auto exports.
- ◆ The capacity of Honda's plant in Alliston and Toyota's plant in Cambridge is expected to rise by about 230,000 units by 1998.

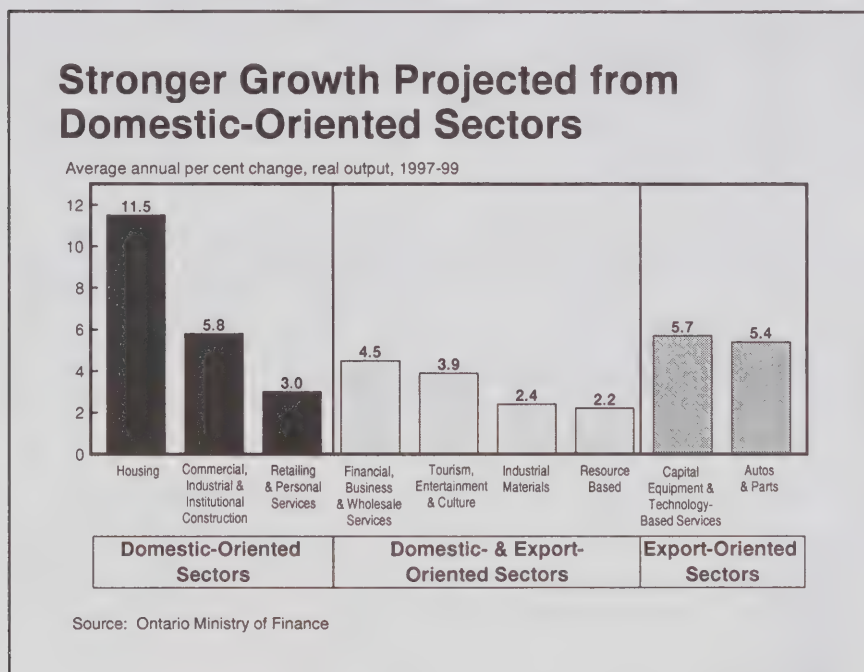
Although Ontario high-tech industries currently make up 7.4 per cent of provincial output, they accounted for about 44 per cent of Ontario's real GDP growth from 1990 to 1996. These industries compete successfully in a global market.

Overall, Ontario real exports are projected to grow at an average 5.1 per cent over the 1997 to 1999 period. Ontario's real trade balance is expected to rise, contributing to GDP growth over the medium term.

## More Balanced Sectoral Growth

Ontario's strengths as an exporter of goods and services, combined with renewed consumer confidence, will support growth in many industries. Lower interest and mortgage rates, tax cuts, government deregulation, and improving employment opportunities will all help broaden Ontario's economic expansion by bolstering consumer and business demand.

- ◆ Domestic-oriented sectors such as housing, retailing, entertainment and culture are an increasing source of jobs and growth, spurred on by tax cuts and rising consumer confidence.



- ◆ Export-oriented sectors such as capital equipment, software and autos will continue to gain market share in the United States. These sectors will benefit from steady growth in U.S. business and consumer demand, and a competitive Canadian dollar.
- ◆ Sectors relying on both export and domestic markets, such as financial and business services, are benefiting from improvements in business and consumer confidence within the province, nationally and in the U.S.

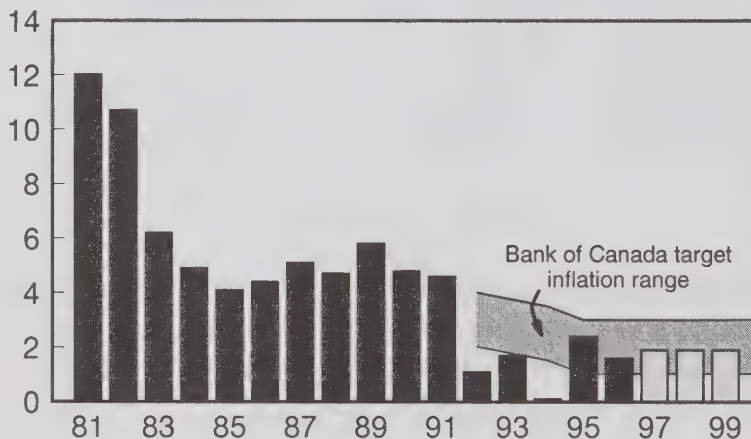
## Low Inflation Continues

Inflation should remain low over the next several years. This reflects improving productivity, modest wage settlements and unused production capacity in the economy. A stronger Canadian dollar over the medium term will also help keep inflation low.

- ◆ Ontario CPI inflation was 1.6 per cent in 1996, and is projected to average 1.9 per cent over the 1997 to 1999 period. Inflation is expected to stay well within the Bank of Canada's current target range of 1 to 3 per cent.
- ◆ Labour costs are important to continuing low inflation since they account for about 55 per cent of the economy's domestic cost base. Wage settlements have averaged about 1 per cent per year over the past four years. Higher productivity due to continuing strong investment will allow firms to raise wage rates without leading to higher consumer prices.
- ◆ With the exception of Japan, Ontario is expected to have lower inflation than all of the G-7 nations through the end of the decade.

### Ontario Inflation to Remain Low

Ontario CPI Inflation (per cent)



Sources: Statistics Canada and Ontario Ministry of Finance

## Sensitivity of Deficit to Changes in Economic Assumptions

In order to develop a cautious fiscal plan, this Budget is based on prudent assumptions about interest rates and economic growth. Interest rates are assumed to be one percentage point higher than the private-sector consensus forecast, and our economic assumptions are deliberately set below the private-sector consensus and Ontario's potential.

<b>Cautious Economic Growth Projections</b> (per cent)			
	<b>1997</b>	<b>1998</b>	<b>1999</b>
<b>Ontario Real GDP Growth</b>			
Private-sector high	4.3	4.4	4.2
Private-sector low	3.0	2.3	3.1
Private-sector survey average	3.6	3.5	3.6
<b>Ontario's prudent projection</b>	<b>3.2</b>	<b>3.2</b>	<b>3.3</b>

Sources: Ontario Ministry of Finance and Ontario Finance Survey of Forecasts (April 1997)  
 Note: The private-sector average is based on nine respondents for 1997, eight for 1998 and four for 1999.

The following table shows the sensitivity of the deficit to the direct impact of lower interest rates on public debt interest (PDI) and the impact of stronger economic growth on revenues and expenditures. These are partial calculations. For example, the impacts do not incorporate the economic impact of lower interest rates on economic activity.

<b>Impact of Assumptions on the Ontario Deficit</b> (Change from base level)		
	<b>Impact on Deficit (\$millions)</b>	
	<b>1997-98</b>	<b>1998-99</b>
100 Basis Point Fall in Canadian Interest Rates	-105	-265
1 Percentage Point Increase in Real GDP Growth	-440	-925

Source: Ontario Ministry of Finance  
 Note: Second-year figures are cumulative change from base level.

**The Ontario Economy, Summary: 1994-1999**  
 (per cent change)

	Actual			Projected		
	1994	1995	1996	1997	1998	1999
<b>Real Gross Domestic Product</b>	4.7	3.2	2.0	<b>3.2</b>	3.2	3.3
Personal consumption	2.7	1.6	1.5	<b>2.7</b>	3.2	3.2
Residential construction	1.8	-13.3	13.2	<b>16.0</b>	9.9	8.6
Commercial, industrial and institutional construction	-20.9	-4.2	7.7	<b>3.5</b>	7.2	6.6
Machinery and equipment	17.0	13.7	14.4	<b>11.4</b>	8.4	8.1
Exports	14.4	9.9	3.5	<b>5.1</b>	5.3	5.1
Imports	13.9	8.8	2.6	<b>4.8</b>	5.0	5.0
<b>Nominal Gross Domestic Product</b>	4.3	4.1	3.3	<b>5.0</b>	5.0	5.3
<b>Other Economic Indicators</b>						
Retail sales	6.7	3.1	0.3	<b>4.0</b>	4.7	4.8
Housing starts (000s)	46.6	35.8	43.1	<b>55.6</b>	60.6	65.3
Personal income	2.1	3.5	1.5	<b>3.2</b>	4.4	4.6
Corporate profits	31.9	14.9	7.2	<b>13.8</b>	6.5	5.6
Ontario Consumer Price Index	0.1	2.4	1.6	<b>1.9</b>	1.9	1.9
<b>Labour market</b>						
Employment*	1.4	1.4	1.5	<b>1.6-2.4</b>	2.5-3.6	2.5-3.0
Unemployment rate* (per cent)	9.6	8.7	9.1	<b>8.4-8.7</b>	7.9-8.6	7.7-8.2

Sources: Statistics Canada and Ontario Ministry of Finance

\*Based on Statistics Canada Labour Force Survey

# Paper B

## Ontario's Fiscal Plan



## Introduction

With the 1997-98 fiscal year, Ontario is well into the Government's five-year plan to balance the budget by the year 2000-01. This year, the deficit will be reduced by over 40 per cent from the \$11.3 billion potential deficit outlook facing the Government when it assumed office in June of 1995.

To date, the Province has met, and in fact exceeded, the deficit targets outlined in the Balanced Budget Plan.

At the same time that the deficit has been cut, the Province has invested heavily in priority areas undergoing restructuring, particularly in health care and education.

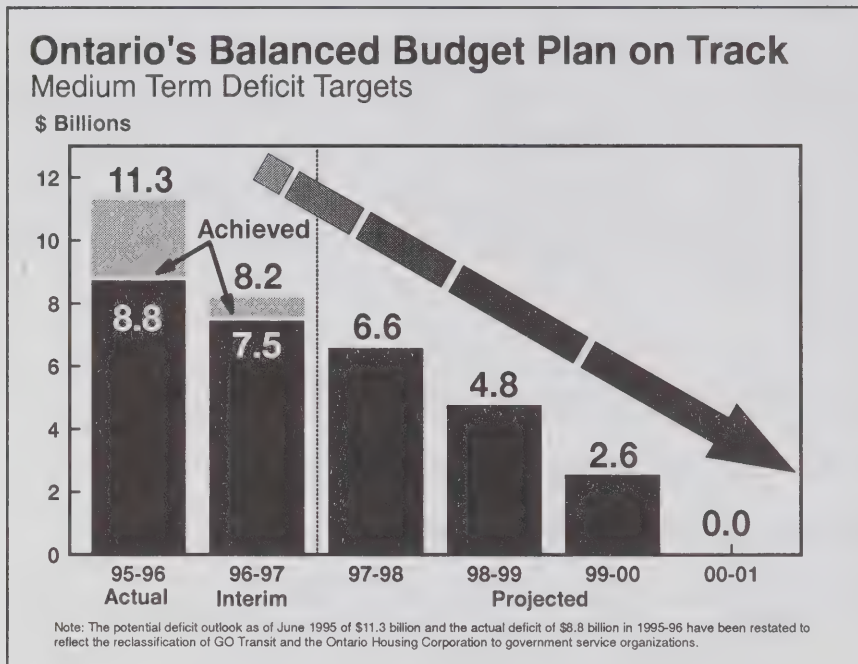
This paper:

- ◆ Outlines the 1997-98 Budget Plan;
- ◆ Projects the medium term fiscal outlook; and
- ◆ Highlights Ontario's improving fiscal performance.

The paper concludes with a review of the interim financial results for Ontario in 1996-97.

## On Track to Balance the Budget

In the fall of 1995, the Government set out its Balanced Budget Plan to eliminate the deficit by the year 2000-01. Ontario remains on track to meet the declining annual deficit targets outlined in the Plan.



- ◆ This is the second year in a row that the deficit target has been over-achieved. The 1995-96 Budget deficit target was over-achieved by \$508 million. The interim 1996-97 deficit is \$710 million below the target of \$8.2 billion.

## 1997-98 Fiscal Plan

In 1997-98, the deficit will decline by \$890 million to \$6.6 billion. This represents a decline of over 40 per cent or \$4.7 billion from the \$11.3 billion deficit outlook facing the government upon assuming office in June of 1995.

### 1997-98 Fiscal Plan (\$ Millions)

	Interim 1996-97	Plan 1997-98	Change	
			\$ Millions	Per cent
<b>Revenue:</b>				
Taxation	38,136	<b>37,505</b>	(631)	(1.7)
Federal Transfers	5,896	<b>5,295</b>	(601)	(10.2)
Income from Government Enterprises	1,938	<b>2,320</b>	382	19.7
Other Revenue	3,173	<b>3,280</b>	107	3.4
Total Revenue	49,143	<b>48,400</b>	(743)	(1.5)
<b>Expense:</b>				
Programs	43,012	<b>41,780</b>	(1,232)	(2.9)
Restructuring and Other Charges	2,306	<b>610</b>	(1,696)	(73.5)
Total Program Expense	45,318	<b>42,390</b>	(2,928)	(6.5)
Capital	2,586	<b>2,750</b>	164	6.3
Public Debt Interest	8,709	<b>9,190</b>	481	5.5
Total Expense	56,613	<b>54,330</b>	(2,283)	(4.0)
Reserve	0	<b>650</b>	650	-
<b>Deficit</b>	<b>7,470</b>	<b>6,580</b>	<b>(890)</b>	<b>(11.9)</b>

- ◆ Revenue in 1997-98 is projected to be \$48,400 million, a decline of \$743 million from 1996-97. This decline is a result of a \$601 million cut in federal transfers and \$742 million of 1995-96 Personal Income Tax (PIT) revenue included in 1996-97, partially offset by increased Income from Government Enterprises of \$382 million.
- ◆ Through greater efficiencies and savings, the Government will reduce the 1997-98 planned expenses of the Province by \$2,283 million from the 1996-97 interim level of \$56,613 million to \$54,330 million.
- ◆ In keeping with prudent budgeting, a \$650 million Reserve has been included in the 1997-98 fiscal plan. The Reserve is designed to protect the fiscal plan against unforeseen risks such as unexpected and adverse changes in the economic outlook and their impact on revenues and public debt interest.

### 1997-98 Revenue Outlook

Revenue in 1997-98 is projected to be \$48,400 million. Tax revenue is projected to decline by \$631 million in 1997-98. This decline in tax revenue is due to the inclusion in 1996-97 revenues of \$742 million to capture higher 1995-96 Personal Income Tax (PIT) than reported in the 1995-96 Public Accounts. Excluding this adjustment, standardized tax revenue is projected to continue to grow by \$111 million or 0.3 per cent in 1997-98 as the current economic expansion continues.

#### Standardized Tax Revenue\* (\$ Millions)

	1995-96	1996-97	1997-98
Standardized Tax Revenue	36,730	37,394	37,505

\* Tax revenue adjusted to report PIT in the year earned.

#### 1997-98 Revenues (\$ Millions)

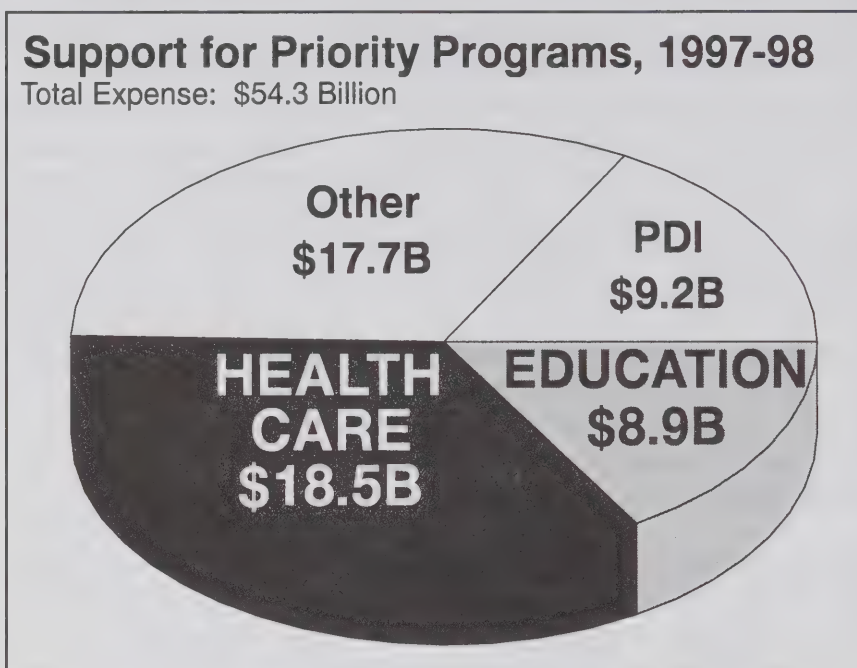
	Actual 1995-96	Interim 1996-97	Plan 1997-98
Taxation	36,316	38,136	37,505
Federal Payments	7,880	5,896	5,295
Income from Government Enterprises	1,730	1,938	2,320
Other Revenue	3,547	3,173	3,280
<b>Total Revenue</b>	<b>49,473</b>	<b>49,143</b>	<b>48,400</b>

- ◆ Personal Income Tax revenue is projected at \$14,490 million. It includes the impact of the tax rate cut, the Fair Share Health Care Levy and the measures announced in the Budget.
- ◆ Retail Sales Tax (RST) is estimated to increase to \$10,390 million, as consumer and business spending continues to grow. This projection includes the RST changes announced in the Budget.
- ◆ Corporations Tax revenue is projected to grow to \$6,450 million due to rising corporate profits. This projection includes the Corporations Tax initiatives announced in the Budget.

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- ◆ Employer Health Tax (EHT) revenue is projected to decline to \$2,640 million as a result of the continuing phase-in of the EHT exemption announced in the 1996 Budget.
  - ◆ Federal transfers to Ontario will decline by \$601 million in 1997-98 from 1996-97 levels. This change is mainly due to a federal cut of \$609 million under the Canada Health and Social Transfer (CHST). Beginning April 1, 1996, the federal government replaced the Established Programs Financing (EPF) and the Canada Assistance Plan (CAP) with the CHST. As well, the federal government will cut cash transfers to provinces for health care and other social programs by \$7.1 billion, or 42.5 per cent, between 1995-96 and 1998-99. Compared to combined EPF and CAP revenues in 1995-96, federal CHST payments to Ontario will be cut by \$2,123 million in 1997-98.
  - ◆ Income from Government Enterprises is expected to increase by \$382 million. Income from Government Enterprises is increasing by \$90 million from the introduction of video lotteries in charity gaming clubs and race tracks, and the full-year revenues from Casino Niagara and Casino Rama, which opened during 1996-97.
  - ◆ Other Revenue, including Vehicle and Driver Registration Fees, Other Fees and Licences, Royalties and Liquor Licence Board of Ontario revenue, is expected to increase by \$107 million.

### 1997-98 Expense Outlook

In 1997-98, the Government will continue to invest heavily in the priority areas of health care and education. For the coming year, more than \$27 billion in funding will be made available to support these priorities.



- ◆ The Province is once again signalling its commitment to health care services. This year's funding includes \$17.8 billion in program funding. A one-time provision of \$450 million has also been made to further support restructuring in the health care system. The capital budget for the Ministry of Health will be \$242 million this year, \$60 million higher than last year's capital spending. In total, \$18.5 billion in health care funding will be provided in 1997-98.
- ◆ To continue providing children with an excellent education, schools will receive almost \$4.5 billion in provincial grants. Colleges and universities will continue to receive more than \$2.2 billion from the Province. More than \$450 million will be provided to the Ministry of Education for capital expenses. To reduce the size of government spending outside of the classroom, the number of school boards will be cut approximately in half from 129 and the number of trustees will be reduced by more than half from 1,900.

### ***Investing in Ontario's Infrastructure***

The Government of Ontario has agreed to participate in the extension of the Canada-Ontario Infrastructure Works (COIW) program in 1997-98. A total of \$459 million will be invested to meet the province's strategic infrastructure priorities. As a result of this initiative, \$325 million will be spent by Ontario in conjunction with the federal government. In addition, \$134 million will be invested by local partners.

#### **Canada-Ontario Infrastructure Works (\$ Millions)**

<b>Program</b>	<b>1997-98</b>
Municipal Road and Water and Sewer System Projects	183
Community Care and Long Term Care Facilities	135
Strategic Transportation Highway Projects	83
Post-Secondary Institutions	58
<b>Total</b>	<b>459</b>

- ◆ Municipalities across Ontario will be invited to propose local road and water and sewer system projects to be funded through this program, up to a maximum of \$183 million in 1997-98. The provincial and federal governments will each provide one-third of the funding towards the eligible costs of the projects.
- ◆ In concert with local health care partners, funds will be provided to support construction of new community care and long-term care facilities and renovating and redeveloping existing facilities.
- ◆ In partnership with municipalities, infrastructure projects that attract and complement private-sector investments in all regions of the province will be funded under this program. In addition, strategic transportation highways will be rehabilitated in all regions of Ontario.
- ◆ In conjunction with the province's colleges and universities, funds will be provided to repair post-secondary facilities across the province.

### ***Municipal Capital and Operating Restructuring Fund***

In January, through the Who Does What exercise, the Ontario Government proposed a new arrangement for provincial-municipal responsibilities. This plan was designed to control spiralling education costs, end duplication in the delivery of services between the provincial and municipal governments and create tax fairness across the province. The Government made it clear that it was open to changes in the proposal which would make it easier to meet these objectives.

After several months of discussion, municipal representatives offered an alternative solution that reflected the views of a broad cross-section of interests. On May 1, 1997 the Government accepted the proposed alternative and will now proceed with the necessary implementation. The fiscal implications of the revised Who Does What arrangements have been reflected in this Budget.

The Province is providing at least \$800 million in transition assistance through the Municipal Capital and Operating Restructuring Fund. Additional funds will be available based on demonstrated need.

#### **Municipal Capital and Operating Restructuring Fund (\$ Millions)**

<b>Program</b>	<b>1996-97</b>	<b>1997-98</b>	<b>Future Years</b>	<b>Total</b>
Water and Sewer Systems	-	40	160	200
Non-Profit and Co-operative Housing	150	23	-	173
Transportation	200	-	-	200
Unallocated	-	137	90	227
<b>Total</b>	<b>350</b>	<b>200</b>	<b>250</b>	<b>800+</b>

- ◆ Through the Ministry of Environment and Energy, a total of \$200 million, including \$40 million in 1997-98, will be provided over the next three years to help municipalities invest in water and sewer systems. This transitional assistance will help municipalities to assume full responsibility for operating and financing water and sewer systems. The fund will target those municipalities requiring financial assistance to address immediate public health and environmental risks.
- ◆ The Government has provided \$173 million for non-profit and co-operative housing major capital reserves funded through the Ministry of Municipal Affairs and Housing. Contributions into these reserves were suspended by the previous government as a constraint measure. The contributions have been reinstated to ensure that the proper resources are available to maintain and upgrade these housing projects.

- ◆ In recognition of transit, GO Transit and ferry-related needs that result from the re-alignment of responsibilities, \$200 million is being provided to municipalities to seed their capital reserves.
- ◆ At least an additional \$227 million will be made available to municipalities to assist them with their other transition requirements.

In addition to this transition assistance through the Municipal Capital and Operating Restructuring Fund, \$42 million in additional funds will be provided to the Ontario Housing Corporation's 1997-98 capital budget to help municipalities assume responsibility for managing the public housing stock in the province. Along with federal support, this year's budget for capital repairs and renovations will be \$100 million.

The Government will also be providing an additional \$225 million to address needs associated with the transfer of approximately 3,400 kilometres of highways to municipalities. The highways to be transferred are significantly less than the 9,000 kilometres originally contemplated by the Who Does What Panel.

The Community Reinvestment Fund and Additional Transition Assistance will ensure that fiscally vulnerable communities are not unduly affected. These Funds will provide \$142 million in 1997-98 and \$570 million annually in subsequent years.

### ***Ensuring Efficient and Effective Government***

Over the past year, the Honourable David Johnson, Chair of Management Board, has led a government-wide initiative directed at restructuring administrative services. All areas of administration have been examined to ensure a smaller, more efficient system. In support of this objective, a number of initiatives are under way that incorporate standardization of procedures, streamlining of processes, integration and coordination of functions among ministries, and the out-sourcing of services to the private sector. Examples of projects implemented or under way include:

- ◆ Electronic invoicing and payments with large vendors which, once fully implemented, will eliminate financial data-entry processes with large vendors dealing with the government.
- ◆ Implementation of new private-sector long distance telephone services through competitive tender, which has reduced costs substantially across the government for long distance voice and calling card expenditures.
- ◆ Closure of the government's GO-Temp operation with temporary staff now fully supplied by the private sector.
- ◆ Purchasing cards used by designated employees for the purchase of low-dollar value goods and services. Operating savings are being realized through reduced petty cash and accounts payable invoice processing and lower cheque volumes.
- ◆ The warehousing function for the province's Publications Ontario operation is now being met by a private-sector firm.
- ◆ Several ministries have reduced overlap and duplication by sharing support services, information systems, and administrative processing.

This restructuring is taking place over time. The end result will be a smaller, more efficient administrative structure in the government. Other measures that will complement this work include:

- ◆ The Treasury Board Act, 1991 will be changed to allow for greater delegation of financial authority to ministries to capture administrative and operational efficiencies.
- ◆ Ontario will change the basis on which the debt guarantee fee currently paid by Ontario Hydro to the Province is calculated. This will reflect more accurately Ontario's obligations under its guarantee of Ontario Hydro's borrowings.

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## ***An Open and Accountable Government***

Part of being an accountable government is openness and the willingness to listen. In keeping with this principle, the Government is launching a number of initiatives for more effective administration.

### **Assessment Services**

The Government will work with the municipal sector to transfer control of the delivery of property assessment services. Legislation will be introduced to establish an efficient and effective assessment function at the municipal level.

### **Financial Services Reform**

The Government will table legislation to create the Financial Services Commission of Ontario. The creation of the FSC will result in more efficient and coordinated protection for consumers and pension plan members in Ontario. The FSC will retain an independent appeal function for pension and other regulatory matters.

### **Securities Commission Reform**

As part of its spending control strategy, the Government has focused on eliminating costly overlap and duplication.

Ontario and the federal government have discussed ways to reduce duplication and overlap in securities regulation and in the administration of the tax system. However, the federal government has not acted in either area.

Business and investors need access to capital markets in order to grow and support job creation. While Ontario has indicated that it would participate in a Canadian Securities Commission, Ottawa has not acted. Therefore, the Province will introduce legislation this spring to strengthen the Ontario Securities Commission and to reduce regulatory costs to investors and businesses. This arrangement would not preclude a later transition to a Canadian Securities Commission.

### **Tax Administration Reform**

Ottawa has also been slow to act on creating a national tax administration system that is simple, cost-effective and committed to quality services for taxpayers. The Government will seek expert independent advice to look for better ways to administer the Ontario tax system, reduce costs and improve service to taxpayers.

### **Pension Benefits Act Reform**

Ontarians have indicated that the Province's pension legislation is complex, inefficient and costly. They have also experienced frustration because of an inability to access their pension money in locked-in retirement accounts, specifically in cases of hardship.

To address these and related concerns, the Government will consult with the pension community on ways of streamlining the regulatory system while ensuring that employees' rights are protected. The Government is also interested in exploring with other governments the possibility of moving towards a single regulatory regime for pensions.

### **Loan and Trust Companies Regulatory Reform**

Ontario is also discussing with the federal government ways of eliminating overlap and duplication in the loan and trust regulatory system. In order to complete these discussions, legislation will be introduced to extend the sunset period in the Loan and Trust Corporations Act.

### **Public Sector Accountability**

The Public Sector Accountability Act will be introduced and will require publicly funded organizations to follow best practices in managing their operations. This includes requiring them to report their financial activities in accordance with the recommendations of the Canadian Institute of Chartered Accountants.

This Act will require these organizations to disclose to the public, in a corporate plan and annual report, information on the objectives of the organization, the plan for carrying out these objectives, the resources required and performance against their plan. It will also require them to benchmark their activities against the public and private sector to ensure that best practices are followed, and to provide a plan to move towards best practices in those situations where they have fallen behind.

This process will require organizations to identify opportunities to improve service delivery and involve the private sector in the design and delivery of those services. Organizations will also be required to develop and communicate measurable performance indicators.

These changes will ensure that all money being spent by publicly funded organizations is being wisely, prudently and efficiently spent for the intended purpose, regardless of the source of the money.

## Medium Term Fiscal Outlook

Over the medium term, Ontario's deficit will continue on its downward track toward a balanced budget. In 1998-99, the deficit outlook will be reduced by a further \$1.8 billion from \$6.6 billion in 1997-98 to \$4.8 billion.

### Medium Term Fiscal Outlook (\$ Billions)

	Interim 1996-97	Plan 1997-98	Outlook 1998-99
<b>Revenue</b>	49.1	<b>48.4</b>	48.8
<b>Expense</b>			
Programs	43.0	<b>41.8</b>	40.8
Restructuring and Other Charges	2.3	<b>0.6</b>	0.1
Total Programs	45.3	<b>42.4</b>	40.9
Capital	2.6	<b>2.8</b>	2.4
Public Debt Interest	8.7	<b>9.2</b>	9.6
Total Expense	56.6	<b>54.3</b>	52.9
Reserve	0.0	<b>0.7</b>	0.7
<b>Deficit</b>	<b>7.5</b>	<b>6.6</b>	<b>4.8</b>

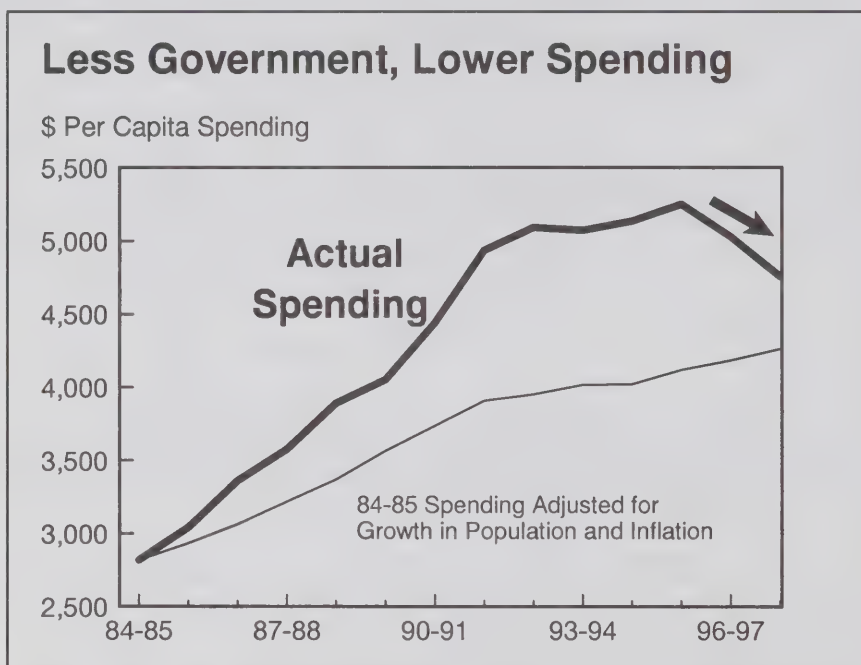
Note: Numbers may not add due to rounding.

- ◆ By 1998-99, the Government will have reduced the Provincial deficit by \$6.5 billion or 58 per cent from the \$11.3 billion potential deficit outlook it faced in June of 1995.
- ◆ By controlling costs and identifying greater efficiencies and savings, the Government will maintain total program costs in 1998-99 below the level of program costs in 1996-97 and 1997-98.

## Ontario's Improving Fiscal Performance

### *Turning the Corner on the Fiscal Plan*

Since assuming office, the Government has taken firm action to restore the fiscal health of the Province. Between 1984-85 and 1995-96, spending grew much faster than the growth in population and inflation. Since then, government spending has been reduced and will continue to fall.

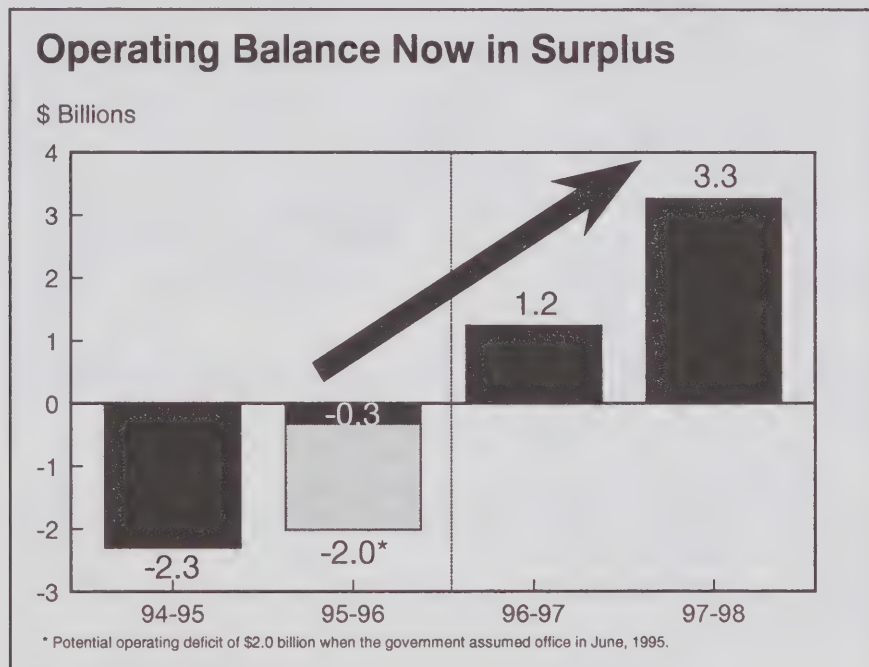


- ◆ After increasing in the late 1980s and early 1990s, spending will be reduced to \$4,759 per capita in 1997-98, a decline of 5.4 per cent from the previous year.

### ***Achieving an Operating Surplus in 1996-97***

Ontario's Balanced Budget Plan will ensure that total government spending does not exceed revenue in the year 2000-01. Already, Ontario has achieved an important milestone by recording an operating surplus of \$1.2 billion in 1996-97.

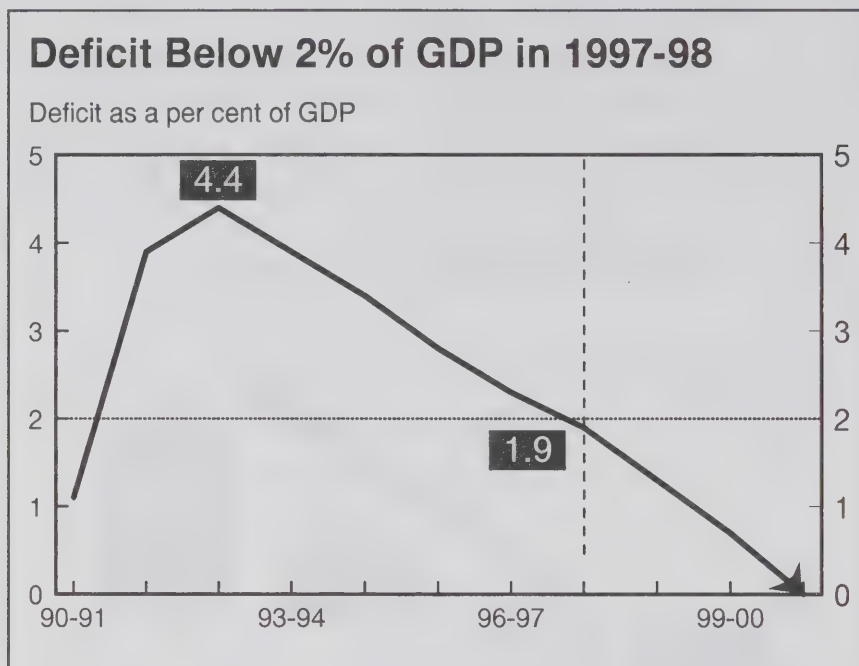
The operating balance is an indicator used by the federal government to show the amount by which total revenues exceed spending on all programs. It is calculated as the difference between government revenue and total spending on all programs, not including public debt interest.



- ◆ Ontario has gone from an operating deficit in 1994-95 of \$2.3 billion to an operating surplus in 1996-97 of \$1.2 billion. The operating surplus will grow further to \$3.3 billion in 1997-98.

***Reducing the Deficit to Below Two Per Cent of GDP in 1997-98***

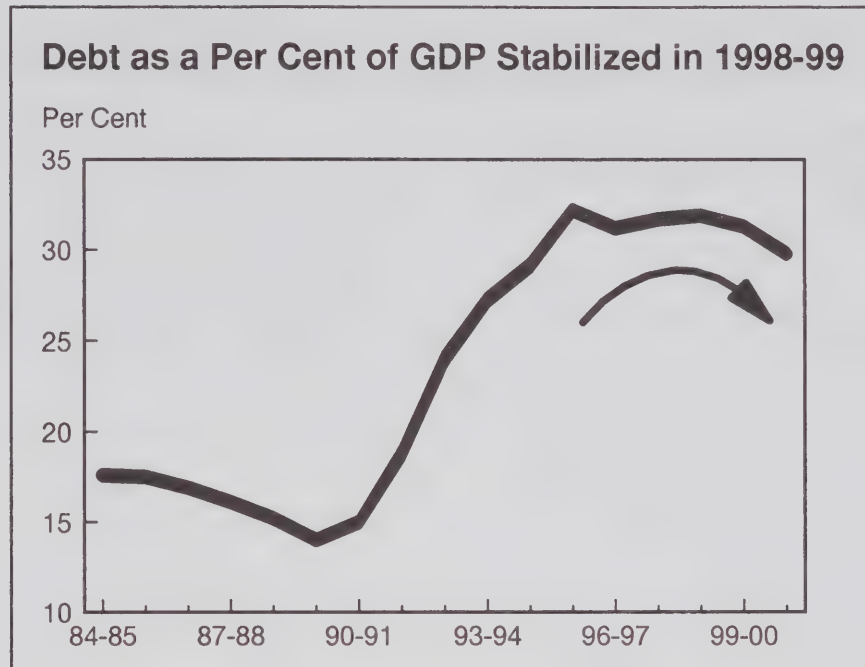
A further indicator of Ontario's improving fiscal health is the falling ratio of the deficit as a share of the economy. In 1997-98, Ontario's deficit will decline to below 2 per cent of Gross Domestic Product (GDP).



- ◆ In the early 1990s, Ontario's budgetary deficit rose significantly, reaching a peak of 4.4 per cent of provincial GDP in 1992-93. Under the Balanced Budget Plan, the deficit will be reduced to 1.9 per cent of GDP this year and will continue to fall in future years.

### ***Reducing Debt as a Per Cent of GDP in 1998-99***

As a result of the Government's Balanced Budget Plan, the growth in the ratio of debt to GDP will halt in 1998-99 and will begin to decline.



- ◆ In 1998-99, Ontario's debt as a share of GDP will stabilize at 32.1 per cent, and begin to fall annually thereafter.
- ◆ In 1995-96, \$5.6 billion of debt was pre-borrowed to meet 1996-97 financing requirements and to take advantage of favourable market conditions at that time. This borrowing caused the temporary upswing in the ratio of debt to GDP in 1995-96.

## 1996-97 In-Year Fiscal Performance

### *A Second Year of Over-Achieving the Deficit Target*

For the second consecutive year, the deficit target for the year just completed has been over-achieved. At \$7.5 billion, the interim deficit for 1996-97 is \$710 million below the Budget target of \$8.2 billion.

#### 1996-97 In-Year Fiscal Performance (\$ Millions)

	Budget Plan	Interim	In-Year Change
<b>Revenue</b>	46,660	49,143	2,483
<b>Expense</b>			
Programs	41,841	43,012	1,171
Restructuring and Other Charges	900	2,306	1,406
Total Program Expense	42,741	45,318	2,577
Capital	2,704	2,586	(118)
Public Debt Interest	8,745	8,709	(36)
Total Expense	54,190	56,613	2,423
Reserve	650	0	(650)
<b>Deficit</b>	<b>8,180</b>	<b>7,470</b>	<b>(710)</b>

- ◆ The interim results for 1996-97 incorporate recent changes to the Public Sector Accounting and Auditing Board (PSAAB) recommendations for reporting the activities of government agencies. These changes required GO Transit and the Ontario Housing Corporation (OHC) to be reclassified as government service organizations on the basis that their operations are not self-sustaining from non-provincial revenue sources.
  - The reclassification of GO Transit and OHC added \$1,010 million to 1996-97 interim revenue and increased program, capital and interest expenses by a total of \$1,123 million.
  - Actual results for 1995-96 have been re-stated to be consistent with these changes. The re-stated 1995-96 deficit is \$8,800 million, \$74 million higher than reported in Public Accounts.

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- ◆ Revenue was \$2,483 million higher than expected in the Budget Plan. This gain reflects both the strength of the economy and the cautious nature of the Budget projections. The gain also reflects the following factors:
    - The reclassification of the Ontario Housing Corporation and GO Transit as government service organizations; and
    - The increase in Personal Income Tax (PIT) revenues includes \$742 million to take account of the under-estimate of 1995-96 PIT revenues in the 1995-96 Public Accounts.
  - ◆ Total expenses were \$2,423 million above the Plan, largely due to a \$1,406 million increase in the Restructuring Fund for necessary restructuring investments and other charges, and a \$1,123 million increase resulting from the accounting adjustment to reflect the Ontario Housing Corporation and GO Transit as government service organizations.
  - ◆ The \$650 million Reserve, included in the 1996 Budget to protect the Budget Plan against unforeseen risks such as unexpected and adverse changes in the economic outlook, was not used and contributed towards the over-achievement of the 1996-97 deficit target.

## ***Ontario Opportunities Fund***

The Ontario Opportunities Fund was established in the 1996 Budget to provide for debt and deficit reduction. The Fund receives savings realized from the over-achievement of a deficit target in a given fiscal year, contributions from Ontarians, and proceeds from major asset sales.

The \$710 million over-achievement of the 1996-97 deficit target has been applied to the Ontario Opportunities Fund.

### **Ontario Opportunities Fund (\$ Millions)**

	<b>Interim 1996-97</b>
Provincial Purpose Debt at April 1, 1996	101,396
Add: Borrowing requirements to finance projected deficit of \$8,180 million and investments in agencies	6,604
Decrease in liquid reserves	<u>(5,669)</u>
Increase in debt:	935
Debt before Ontario Opportunities Fund	102,331
Less:	
Ontario Opportunities Fund	
Over-achievement in 1996-97 deficit target (including proceeds from major asset sales and contributions from Ontarians*)	<u>710</u>
Fund balance applied to Debt Reduction	(710)
Provincial Purpose Debt at March 31, 1997	<u>101,621</u>

\* There were no major asset sales in 1996-97. Contributions from Ontarians amounted to \$7,770 in 1996-97.

- ◆ Including the over-achievement of the 1995-96 deficit target of \$508 million, the Ontario Opportunities Fund has reduced the Province's planned borrowing by a cumulative total of \$1,218 million to date. The reduced borrowing saved the Province \$67 million in public debt interest costs in 1996-97.

## 1996-97 Restructuring Charges

In addition to applying its over-achievement of the deficit target to the Ontario Opportunities Fund, the Government made significant investments in key areas to promote restructuring efforts, which will provide more efficient and effective services in such areas as health care and municipalities. Government restructuring decisions made in-year also led to one-time charges.

### 1996-97 Restructuring and Other Charges (\$ Millions)

	Interim 1996-97
<b>Restructuring Charges</b>	
Health care restructuring	850
Municipal restructuring	
Highway transfers to municipalities	350
Municipal Capital and Operating Restructuring Fund:	
Transportation-related needs	200
Non-profit and co-operative housing	150
Ontario Public Service (OPS) restructuring	<u>506</u>
<b>Total Restructuring Charges</b>	<b>2,056</b>
<b>Other Charges</b>	
Early retirement incentive program for teachers	<u>250</u>
<b>Total Other Charges</b>	<b>250</b>
<b>Total Restructuring and Other Charges</b>	<b>2,306</b>

- ◆ In recognition of the scale of restructuring taking place in the Province, total restructuring and other charges amounted to \$2.3 billion. This represents an increase of \$1.4 billion above the \$900 million provision initially set aside for restructuring in the 1996 Budget.
- ◆ During the year, the Government approved a strategy to significantly re-invest in Ontario's health care sector to meet the challenges faced by restructuring and re-aligning hospital services. A restructuring provision of \$850 million is included in 1996-97 to account for the Government's share of costs in those individual communities where hospital restructuring and re-alignment plans exist. These actions will lead to a more efficient and better-managed health care system to better meet the needs of patients.

- ◆ Over the past year, the Government of Ontario has made a number of decisions which involve the restructuring of the municipal sector, resulting in charges totalling \$700 million in 1996-97:
  - The Government has made a provision of \$350 million to municipalities as a result of the transfer of highways and the associated highway connecting links to municipalities. This includes \$225 million for the transfer of 3,400 kilometres of highways related to the Who Does What initiative and \$125 million for previously announced highway transfers.
  - Through the Municipal Capital and Operating Restructuring Fund, the Government has also made a provision of \$200 million to municipalities for transportation-related needs and \$150 million to non-profit and co-operative housing providers. This will help them in dealing with the re-alignment of responsibilities that result from decisions made following receipt of the recommendations of the Who Does What panel review.
- ◆ Decisions made over the past year have also led to Ontario Public Service restructuring charges of \$506 million, including \$435 million for employee severance costs resulting from reductions in the size of the Ontario Public Service. A further restructuring charge of \$71 million was provided for exit costs associated with the implementation of decisions concerning the transfer of certain areas of provincial responsibility to the municipal level of government. These costs include such activities as training, education and information systems.
- ◆ The Government has made a provision of \$250 million in the 1996-97 fiscal year for the Province's share of the cost of an early retirement incentive for teachers.

### 1996-97 In-Year Revenue Changes

Total revenue in 1996-97, at \$49,143 million, was \$2,483 million above the \$46,660 million level projected in the 1996 Budget. The strength of the economy and the cautious nature of the Budget projections both contributed to the revenue gain. Revenues in 1996-97 were also boosted by the following factors:

- ◆ The inclusion of \$742 million in 1996-97 PIT to take account of higher 1995-96 PIT revenues than included in the 1995-96 Public Accounts; and
- ◆ Federal Payments, Income from Government Enterprises and Other Revenue were all increased by the reclassification of the Ontario Housing Corporation and GO Transit from Government Enterprises to government service organizations.

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#### Summary of In-Year Changes to Revenue in 1996-97 (\$ Millions)

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##### Taxation Revenue

Personal Income Tax	1,135	
Corporations Tax	461	
Retail Sales Tax	250	
Land Transfer Tax	50	
Tobacco Tax	50	
Employer Health Tax	40	
All Other (Including Gas, Fuel and Mining Profits Taxes)	(18)	
		<b>1,968</b>

##### Federal Payments

Social Housing	442	
Canada Health and Social Transfer	(446)	
Canada-Ontario Infrastructure Works	(85)	
All Other (Including Young Offenders and Vocational Rehabilitation)	(45)	
		<b>(134)</b>

##### Income from Government Enterprises

Ontario Housing Corporation	232	
GO Transit	157	
Ontario Casino Corporation	(59)	
Ontario Lottery Corporation	(53)	
All Other (Including Ontario Clean Water Agency)	(21)	
		<b>256</b>

##### Other Revenue

Sales and Rentals	324	
Miscellaneous	83	
Fines and Penalties	40	
All Other (Including Vehicle and Driver Registration Fees)	(54)	
		<b>393</b>

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#### Total In-Year Revenue Changes

**2,483**

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- ◆ The strength of the economy helped to raise tax revenues \$1,968 million above the prudent Budget projection. Personal Income Tax revenue was \$1,135 million above the Budget projection as a result of stronger-than-expected income growth in 1995 and continued employment and income growth in 1996. Of this increase, \$742 million is due to higher 1995-96 PIT than was reported in the 1995-96 Public Accounts. Under PSAAB guidelines, the difference between the higher estimate and the 1995-96 Public Accounts estimate is recorded in 1996-97.
- ◆ Corporations Tax revenue was \$461 million or 8.6 per cent higher, reflecting both the cautious nature of the Budget projection and the strength of corporate profits.
- ◆ Retail Sales Tax was \$250 million or 2.6 per cent above projection due to stronger growth in consumer and business spending (1996 nominal consumption was 2.7 per cent, compared to 1996 Budget projection of 2.5 per cent) and the caution built into the Budget projection.
- ◆ The strong resale housing market pushed Land Transfer Tax revenue over the Budget projection by \$50 million or 13.7 per cent. The number of housing resales in Ontario rose 31.3 per cent in 1996.
- ◆ Tobacco Tax was \$50 million or 15.2 per cent above the Budget projection due to the increase of 0.35 cents per cigarette in the federal tobacco tax in November 1996 and stronger-than-expected sales.
- ◆ Employer Health Tax revenue was \$40 million or 1.5 per cent higher, largely reflecting the cautious nature of the Budget projection.
- ◆ Increased Social Housing revenue of \$442 million includes social housing payments of \$305 million made to the Ontario Housing Corporation (OHC), now shown as a federal payment as a result of the accounting reclassification of the OHC to a government service organization, and \$137 million in federal payments made to the Ministry of Municipal Affairs and Housing, previously reported as part of "Other" federal payments.
- ◆ Revenue from the Canada Health and Social Transfer was down \$446 million from the Budget projection as a result of stronger-than-expected Personal Income Tax revenue. Under the federal Canada Health and Social Transfer allocation formula, an increase in the value of Ontario's income tax points, transferred to Ontario in 1977, results in lower federal cash payments to the Province.

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- ◆ A slowdown in the pace of construction of Canada-Ontario Infrastructure Works projects resulted in an \$85 million decline in 1996-97 federal infrastructure payments compared to the Budget projection.
  - ◆ Higher-than-projected Income from Government Enterprises primarily reflects the reclassification of the Ontario Housing Corporation and GO Transit, which removed a combined loss of \$389 million from this revenue category. These gains were partially offset by the delay in the implementation of Video Lotteries to 1997-98 from 1996-97, which reduced income from the Ontario Lottery Corporation. Casino Corporation income was \$59 million or 10.3 per cent below projection, mainly due to a one-month delay in the opening of Casino Niagara.
  - ◆ Sales and Rentals revenue increased by \$324 million, largely due to \$316 million from the inclusion of the gross revenue of the Ontario Housing Corporation and GO Transit.
  - ◆ Miscellaneous revenue was higher by \$83 million or 23.5 per cent, partly as a result of OHIP subrogation. Fines and Penalties were \$40 million or 40 per cent higher as a result of higher fines under the Highway Traffic Act and an underestimate of the accounts receivable balance in the 1996 Budget Outlook.

### ***1996-97 In-Year Operating Expense Changes***

Operating expenses increased \$2,541 million above the Budget Plan of \$51,486 million to \$54,027 million, mainly due to a \$1,406 million in-year increase in restructuring and other charges, and a \$993 million increase arising from the accounting reclassification of GO Transit and the Ontario Housing Corporation to government service organizations.

#### **Summary of In-Year Operating Expense Changes (\$ Millions)**

	Interim 1996-97
<b>Program Expense Changes:</b>	
Restructuring and other charges — in-year increase	1,406
Reclassification of GO Transit and the Ontario Housing Corporation to government service organizations — increase in program expense	743
Ontario Student Opportunities Trust Fund — increase in matching contributions to trust funds	150
Drug Benefits program — increased utilization	114
Ontario Student Assistance Program (OSAP) — social assistance recipients transferred to OSAP	50
Extra forest fire fighting — Increase in Ministry of Natural Resources expenses	50
Crop Insurance — claims for bad winter wheat harvest	49
General Legislative Grants — increase due to only partial recovery of funds owing from the Metro Toronto and Ottawa public school boards	46
Province-wide property assessment	20
Interim financial assistance to the horse racing industry — offset by revenue increase	20
OPS/OPSEU Pension expense — revised estimate	(139)
Ontario Works Program — delay in start-up	(65)
Other changes (net)	133
<b>Total Program Expense Changes</b>	<b>2,577</b>
<b>Public Debt Interest Changes:</b>	
Public Debt Interest expense increase due to reclassification of GO Transit and OHC	250
Public Debt Interest — in-year expense savings	(286)
<b>Total Public Debt Interest Changes</b>	<b>(36)</b>
<b>Total In-Year Operating Expense Changes</b>	<b>2,541</b>

- ◆ Restructuring and other charges totalled \$2,306 million, \$1,406 million more than the \$900 million initially allocated to the Restructuring Fund. Charges included \$850 million for health care restructuring costs, \$700 million for municipal restructuring costs, \$506 million for OPS restructuring costs, and \$250 million for the early retirement option for teachers.
- ◆ Consolidating the expenses of GO Transit and the Ontario Housing Corporation increased program expenses by \$743 million from the Budget Plan, and increased public debt interest costs by \$250 million.
- ◆ Response to the Ontario Student Opportunities Trust Fund initiative announced in the 1996 Budget far exceeded expectations. Consequently, the government provided an additional \$150 million in matching funds for individual university and college trust funds during 1996-97, raising the total to \$250 million. Monies from each fund will be used to assist academically qualified individuals who for financial reasons would not otherwise be able to attend college or university.
- ◆ The Drug Benefits program incurred an overall increase in expenses of \$114 million in-year, mainly due to increased utilization under the Special Drugs Program and the Ontario Drug Benefit plan (ODB).
- ◆ Due to higher-than-anticipated costs associated with the transfer of 17,000 social assistance recipients to the Ontario Student Assistance Program (OSAP), program expenses were increased by \$50 million.
- ◆ To combat an increase in forest fires in the summer of 1996, an additional \$50 million in costs was incurred by the Ministry of Natural Resources.
- ◆ The payment of Crop Insurance claims for a bad winter wheat harvest resulted in an increase in expenses of \$49 million.
- ◆ Grants to school boards increased by \$46 million in-year as a result of the Ministry of Education and Training only having partial recovery of funds owing from the Metro Toronto and Ottawa public school boards.
- ◆ The implementation of province-wide value-based property re-assessment resulted in an increase of \$20 million in Ministry of Finance expenses.

- ◆ Interim financial assistance of \$20 million was provided to the horse-racing industry for Sire Stakes, overnight purse supplements and equine research. The expenditure increase was offset by an increase in provincial revenues from horse racing collected between July 1 and September 30, 1996. Effective September 30, 1996, the Race Tracks Tax Sharing Agreement was replaced by the pari-mutuel tax reduction announced in the 1996 Budget.
- ◆ The \$139 million in-year decrease in OPS/OPSEU pension expense was mainly the result of the use of more current assumptions reflecting a low inflation outlook and higher earnings.
- ◆ Savings of \$65 million under the Ontario Works Program were realized due to delays in the start-up of Ontario Works programs in municipalities.
- ◆ The increase in public debt interest costs of \$250 million resulting from the reclassification of GO Transit and OHC was more than offset by other savings of \$286 million in public debt interest costs. These savings arose from several factors: a decline in public market borrowing from the Budget estimate of \$10 billion to \$6.5 billion; a decline in interest rates during the year which made the prudent contingency provision included in the Budget unnecessary; and effective risk-management activities that further lowered borrowing costs.

### ***1996-97 In-Year Capital Expense Changes***

Interim capital expenses were \$2,586 million, \$118 million below the Budget Plan of \$2,704 million. The table below summarizes the major capital changes that have occurred during the fiscal year.

#### **Summary of In-Year Capital Expense Changes (\$ Millions)**

	<b>Interim 1996-97</b>
Reclassification of GO Transit and the Ontario Housing Corporation to government service organizations — impact on capital expenses	130
Canada-Ontario Infrastructure Works — slowdown in pace of construction	(169)
Merger of the Telecommunications Access Partnerships (TAP) with the Ontario Network Infrastructure Program (ONIP) and savings from the wind-down of the Jobs Ontario Community Action program	(32)
Courts construction — savings due to delays in construction	(18)
Northern Ontario Heritage Fund Corporation — Lower-than-anticipated spending	(18)
Other changes (Including Henley Regatta, Highway 416)	(11)
<b>Total In-Year Capital Expense Changes</b>	<b>(118)</b>

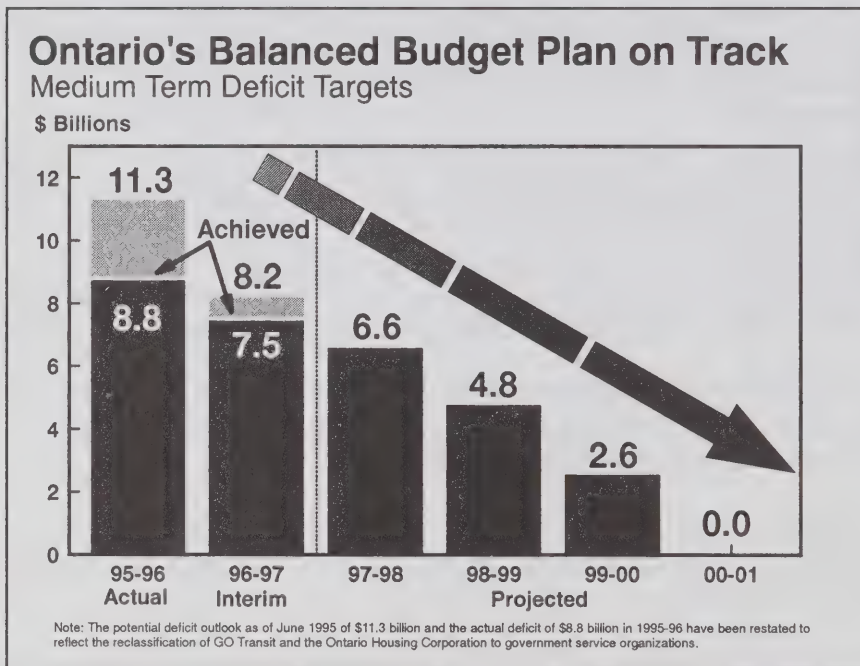
- ◆ Consolidating the expenses of GO Transit and the Ontario Housing Corporation (OHC) contributed to an increase of \$130 million in capital expenses from the Budget Plan.
- ◆ A slowdown in the pace of construction for Canada-Ontario Infrastructure Works projects resulted in a \$169 million reduction in 1996-97 expenses.
- ◆ Savings of \$32 million in 1996-97 occurred as a result of the merger of the Telecommunications Access Partnerships (TAP) with the Ontario Network Infrastructure Program (ONIP) and savings from the wind-down of the Jobs Ontario Community Action program.
- ◆ Savings of \$18 million in 1996-97 for court construction resulted from delays arising from design and construction modifications to various projects.
- ◆ The revised mandate of the Northern Ontario Heritage Fund Corporation in 1996-97 resulted in capital under-expenditure of \$18 million.

## Conclusion

Since assuming office, the Government has made significant progress in addressing the untenable fiscal and economic situation it inherited.

The Province's fiscal environment, guided by the Government's Balanced Budget Plan, is now one of stability and continuous improvement. Taxes are lower, spending and debt levels are being brought under control, and for the second year in a row, the deficit target has been over-achieved. At the same time, the Government has made sizeable investments in priority areas such as health care, education, and research and development.

The Government's strong commitment to the Balanced Budget Plan will ensure that future generations of Ontarians will continue to receive necessary programs and services.



## Financial Tables and Graphs

**Statement of Financial Transactions**  
 (\$ Millions)
**Table B1**

	<b>Actual 1993-94</b>	<b>Actual 1994-95</b>	<b>Actual 1995-96</b>	<b>Interim 1996-97</b>	<b>Plan 1997-98</b>
<b>Revenue</b>	43,674	46,039	49,473	49,143	48,400
<b>Expense</b>					
Programs	44,195	44,505	44,811	43,012	41,780
Restructuring and Other Charges			1,352	2,306	610
Total Program Expense	44,195	44,505	46,163	45,318	42,390
Capital	3,552	3,831	3,635	2,586	2,750
Public Debt Interest	7,129	7,832	8,475	8,709	9,190
Total Expense	54,876	56,168	58,273	56,613	54,330
Reserve	-	-	-	-	650
<b>Deficit</b>	<b>11,202</b>	<b>10,129</b>	<b>8,800</b>	<b>7,470</b>	<b>6,580</b>

Note: 1995-96 financial results restated to reflect reclassification of GO Transit and Ontario Housing Corporation to government service organizations.

**Ontario Opportunities Fund**  
 (\$ Millions)
**Table B2**

	<b>1996-97</b>
Provincial Purposes Debt at April 1, 1996	101,396
Add: Borrowing requirements to finance projected deficit of \$8,180 million and investments in agencies	6,604
Decrease in liquid reserves	(5,669)
Increase in debt:	935
Debt before Ontario Opportunities Fund	102,331
Less:	
<b>Ontario Opportunities Fund</b>	
Over-achievement in 1996-97 deficit target (including proceeds from major asset sales and contributions from Ontarians*)	710
Fund Balance Applied to Debt Reduction	(710)
Provincial Purpose Debt at March 31, 1997	101,621

\* There were no major asset sales in 1996-97. Contributions from Ontarians amounted to \$7,770 in 1996-97.

**Revenue**  
**(\$ Millions)**

Table B3

	Actual 1993-94	Actual 1994-95	Actual 1995-96	Interim 1996-97	Plan 1997-98
<b>Taxation Revenue</b>					
Personal Income Tax	14,723	14,758	15,633	16,348	14,490
Retail Sales Tax	8,124	9,090	9,424	9,770	10,390
Corporations Tax	3,447	4,557	5,174	5,831	6,450
Employer Health Tax	2,665	2,640	2,695	2,705	2,640
Gasoline Tax	1,907	1,939	1,944	1,945	1,970
Fuel Tax	460	495	500	521	545
Tobacco Tax	724	322	337	380	415
Land Transfer Tax	321	372	342	415	450
Mining Profits Tax	85	86	71	54	60
Race Tracks Tax	76	84	92	49	10
Preferred Share Dividends Tax	59	56	65	73	60
Other Taxation	68	60	39	45	25
	<b>32,659</b>	<b>34,459</b>	<b>36,316</b>	<b>38,136</b>	<b>37,505</b>
<b>Government of Canada</b>					
Canada Health and Social Transfer	-	-	-	4,814	4,205
Established Programs Financing	3,790	4,059	3,820	-	-
Canada Assistance Plan	2,399	2,577	2,508	-	-
Fiscal Stabilization	227	184	367	-	-
National Training Act	76	75	55	32	-
Bilingualism Development	70	65	62	42	48
Young Offenders	59	82	61	61	59
Vocational Rehabilitation	65	61	63	64	64
Canada-Ontario Infrastructure Works	-	159	350	138	201
Social Housing	-	-	384	442	476
Other	385	345	210	303	242
	<b>7,071</b>	<b>7,607</b>	<b>7,880</b>	<b>5,896</b>	<b>5,295</b>
<b>Income from Government Enterprises</b>					
Ontario Lottery Corporation	602	631	651	683	785
Liquor Control Board of Ontario	599	637	667	714	730
Ontario Casino Corporation	-	316	422	516	740
Ontario Housing Corporation	(277)	(273)	-	-	-
GO Transit	(136)	(166)	-	-	-
Other	(23)	(77)	(10)	25	65
	<b>765</b>	<b>1,068</b>	<b>1,730</b>	<b>1,938</b>	<b>2,320</b>
<b>Other Revenue</b>					
Vehicle/Driver Registration Fees	695	751	736	760	805
Other Fees and Licences	663	686	631	659	625
Liquor Licence Board of Ontario Revenues	522	532	530	521	525
Royalties	239	223	263	266	225
Sales and Rentals	486	98	497	391	445
Fines and Penalties	141	163	143	140	90
Miscellaneous	433	452	747	436	565
	<b>3,179</b>	<b>2,905</b>	<b>3,547</b>	<b>3,173</b>	<b>3,280</b>
<b>Total Revenue</b>	<b>43,674</b>	<b>46,039</b>	<b>49,473</b>	<b>49,143</b>	<b>48,400</b>

**Operating Expense**  
**(\$ Millions)**

Table B4

<b>Ministry</b>	<b>Actual 1993-94</b>	<b>Actual 1994-95</b>	<b>Actual 1995-96</b>	<b>Interim 1996-97</b>	<b>Plan 1997-98</b>
Agriculture, Food and Rural Affairs	474	383	400	400	405
Crop Insurance Claims	59	26	20	74	45
Attorney General	827	830	1,085	604	654
Board of Internal Economy	137	135	206	128	119
Citizenship, Culture and Recreation	370	408	363	312	280
Community and Social Services	9,165	9,364	8,816	8,025	7,848
Consumer and Commercial Relations	175	150	140	127	94
Economic Development, Trade and Tourism	416	463	385	219	201
Education and Training	8,691	8,357	8,390	7,859	7,735
Teachers' Pension Plan	467	643	812	1,174	745
Environment and Energy	390	272	239	160	150
Executive Offices	13	10	13	13	13
Finance - Own Account	636	425	701	492	445
Public Debt Interest	7,129	7,832	8,475	8,709	9,190
Municipal Capital and Operating Restructuring Fund	-	-	-	-	137
Community Reinvestment Fund	-	-	-	-	142
Health	17,375	17,599	17,607	17,844	17,845
Health Care Restructuring	-	-	-	850	450
Intergovernmental Affairs	7	6	5	4	4
Labour	180	135	135	108	106
Management Board Secretariat	116	823	554	732	353
Public Service/OPSEU Pension Plan	737	682	685	145	145
Contingency Fund	-	-	-	-	380
Employee Severance	-	-	400	435	-
Municipal Affairs and Housing	1,559	1,487	2,421	2,457	2,020
Municipal Capital and Operating Restructuring Fund	-	-	-	150	23
Native Affairs Secretariat	14	16	16	18	9
Natural Resources	502	478	519	426	369
Northern Development and Mines	83	54	66	40	41
Office of Francophone Affairs	3	3	2	2	2
Office Responsible for Women's Issues	23	22	18	14	20
Solicitor General and Correctional Services	1,168	1,136	1,111	1,156	1,095
Transportation	608	598	1,054	1,150	715
Municipal Capital and Operating Restructuring Fund	-	-	-	200	-
Year-End Savings	-	-	-	-	(200)
<b>Total Operating Expense</b>	<b>51,324</b>	<b>52,337</b>	<b>54,638</b>	<b>54,027</b>	<b>51,580</b>

**Capital Expense**  
**(\$ Millions)**

Table B5

<b>Ministry</b>	<b>Actual 1993-94</b>	<b>Actual 1994-95</b>	<b>Actual 1995-96</b>	<b>Interim 1996-97</b>	<b>Plan 1997-98</b>
Agriculture, Food and Rural Affairs	13	12	5	-	-
Attorney General	3	4	-	28	53
Citizenship, Culture and Recreation	28	42	29	9	4
Community and Social Services	77	72	14	28	20
Economic Development, Trade and Tourism	113	117	113	9	-
Education and Training	432	421	559	195	450
Environment and Energy	162	271	238	203	154
Municipal Capital and Operating Restructuring Fund	-	-	-	-	40
Finance	3	3	1	-	-
Health	309	249	168	182	242
Management Board Secretariat	169	260	272	119	46
Municipal Affairs and Housing	96	310	628	308	308
Native Affairs Secretariat	15	17	9	14	12
Natural Resources	95	54	47	33	25
Northern Development and Mines	208	240	163	181	193
Solicitor General and Correctional Services	5	2	2	6	13
Transportation	1,824	1,757	1,387	1,271	1,190
<b>Total Capital Expense</b>	<b>3,552</b>	<b>3,831</b>	<b>3,635</b>	<b>2,586</b>	<b>2,750</b>

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**Ten-Year Review of Selected Financial and Economic Statistics**  
 (\$ Millions)
 

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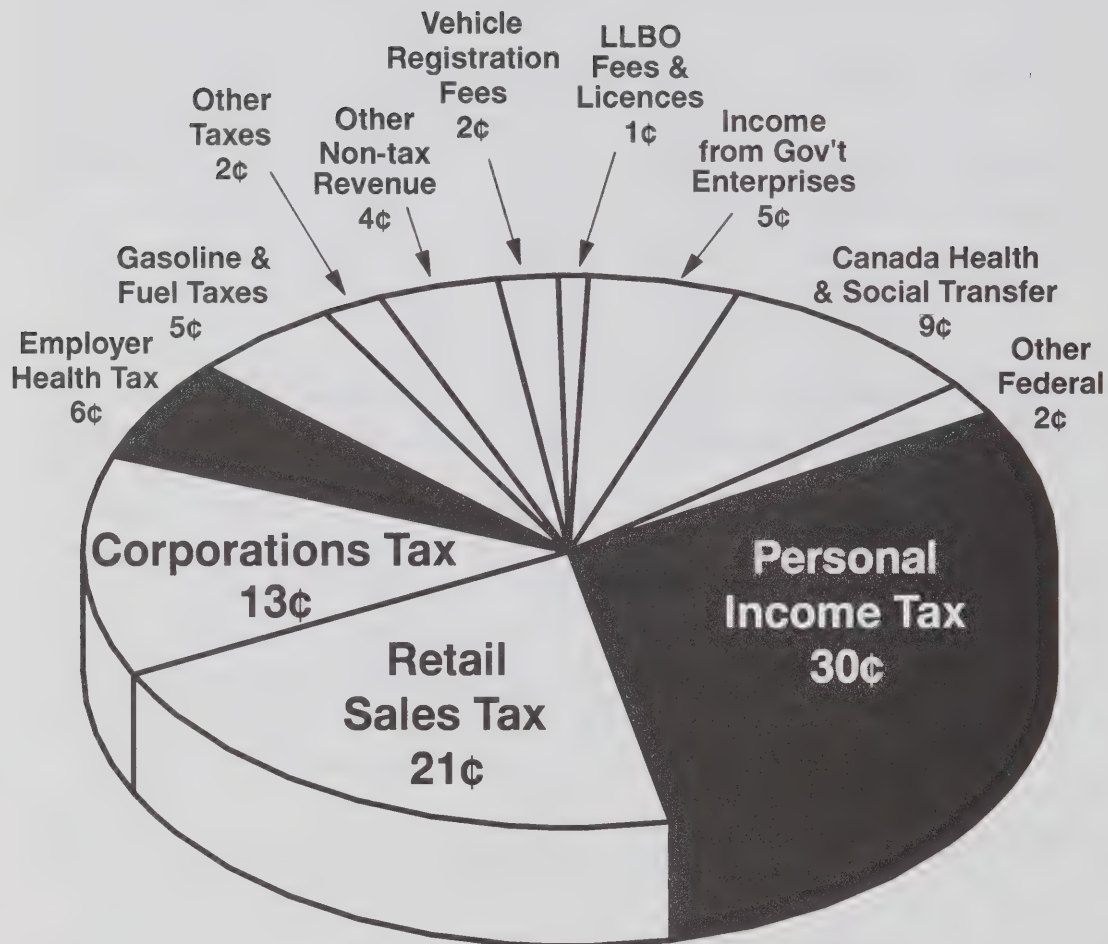
	<b>Modified Cash Basis</b>		
	<b>1988-89</b>	<b>1989-90</b>	<b>1990-91</b>
<b>Financial Transactions</b>			
Revenue	36,991	41,225	42,892
Expense			
Programs	31,435	33,926	38,924
Restructuring and Other Charges	-	-	-
Total Program Expense	31,435	33,926	38,924
Capital	3,268	3,392	3,221
Public Debt Interest	3,767	3,817	3,776
Total Expense	38,470	41,135	45,921
Reserve	-	-	-
<b>Deficit/(Surplus)</b>	<b>1,479</b>	<b>(90)</b>	<b>3,029</b>
<b>Provincial Purpose Debt</b>	<b>39,014</b>	<b>39,256</b>	<b>42,257</b>
Gross Domestic Product (GDP) at Market Prices	253,143	276,073	277,508
Personal Income	206,780	226,707	239,036
Population - July (000s)	9,884	10,151	10,341
Total Debt per Capita (dollars)	3,947	3,867	4,086
Personal Income per Capita (dollars)	20,921	22,333	23,115
Total Expense as a per cent of GDP	15.2	14.9	16.5
Public Debt Interest as a per cent of Revenue	10.2	9.3	8.8
Total Debt as a per cent of GDP	15.4	14.2	15.2
Cumulative Net Borrowing for Ontario Hydro			
U.S.	5,692	5,150	5,049
C.P.P.	2,097	2,748	2,748
Contingent Liability (mainly Ontario Hydro)	20,559	21,490	26,009

Note: 1995-96 financial results restated to reflect reclassification of GO Transit and Ontario Housing Corporation to government service organizations.

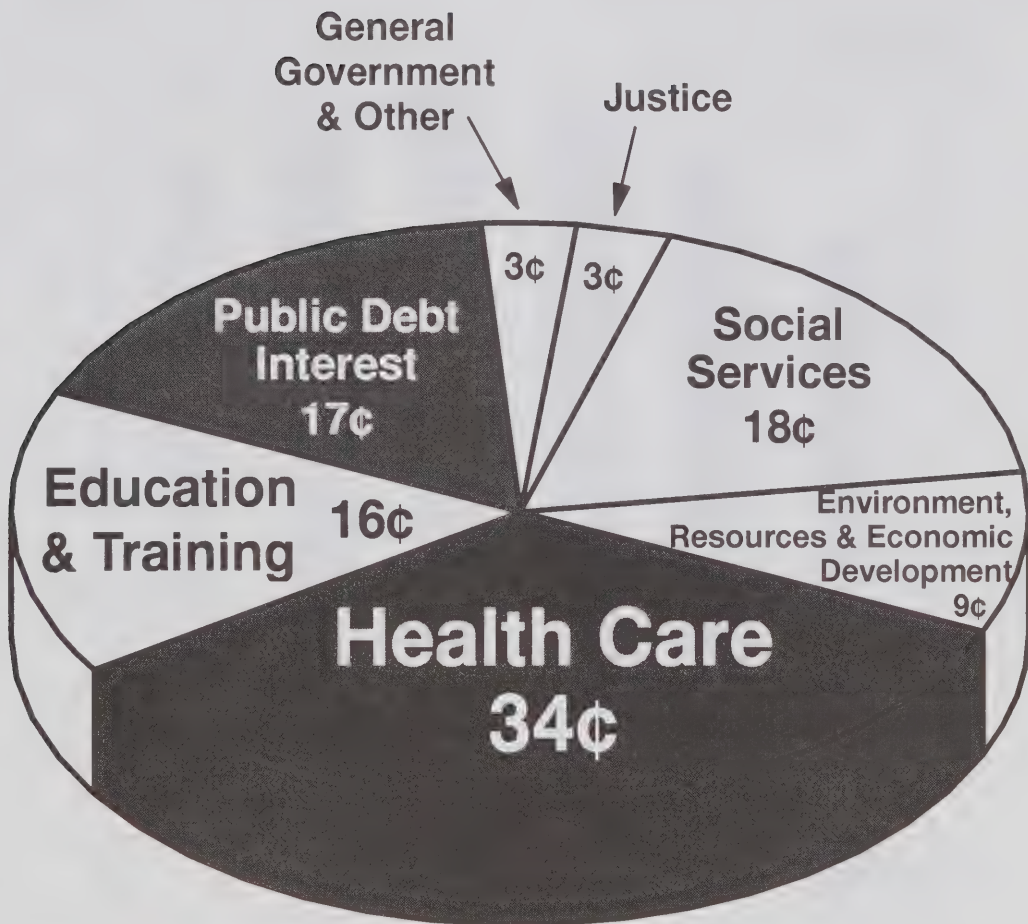
Table B6

1991-92	1992-93	PSAAB Basis				
		1993-94	1994-95	1995-96	Interim 1996-97	Plan 1997-98
40,753	41,807	43,674	46,039	49,473	49,143	48,400
43,613	45,350	44,195	44,505	44,811	43,012	41,780
-	-	-	-	1,352	2,306	610
43,613	45,350	44,195	44,505	46,163	45,318	42,390
3,874	3,592	3,552	3,831	3,635	2,586	2,750
4,196	5,293	7,129	7,832	8,475	8,709	9,190
51,683	54,235	54,876	56,168	58,273	56,613	54,330
-	-	-	-	-	-	650
<b>10,930</b>	<b>12,428</b>	<b>11,202</b>	<b>10,129</b>	<b>8,800</b>	<b>7,470</b>	<b>6,580</b>
<b>53,083</b>	<b>68,607</b>	<b>79,439</b>	<b>88,580</b>	<b>101,396</b>	<b>101,621</b>	<b>108,481</b>
278,463	282,803	288,569	301,082	313,319	323,636	339,873
245,763	250,928	253,217	258,503	267,431	271,479	280,047
10,471	10,646	10,815	10,937	11,097	11,252	11,416
5,070	6,444	7,345	8,099	9,137	9,031	9,503
23,471	23,570	23,413	23,636	24,099	24,127	24,531
18.6	19.2	19.0	18.7	18.6	17.5	16.0
10.3	12.7	16.3	17.0	17.1	17.7	19.0
19.1	24.3	27.5	29.4	32.4	31.4	31.9
4,185	3,969	1,789	1,087	1,060	392	n/a
2,748	2,748	2,748	2,748	2,748	2,748	n/a
30,369	34,657	34,008	33,782	31,632	31,509	n/a

## The Budget Dollar: Revenue 1997-98



## The Budget Dollar: Total Expense 1997-98

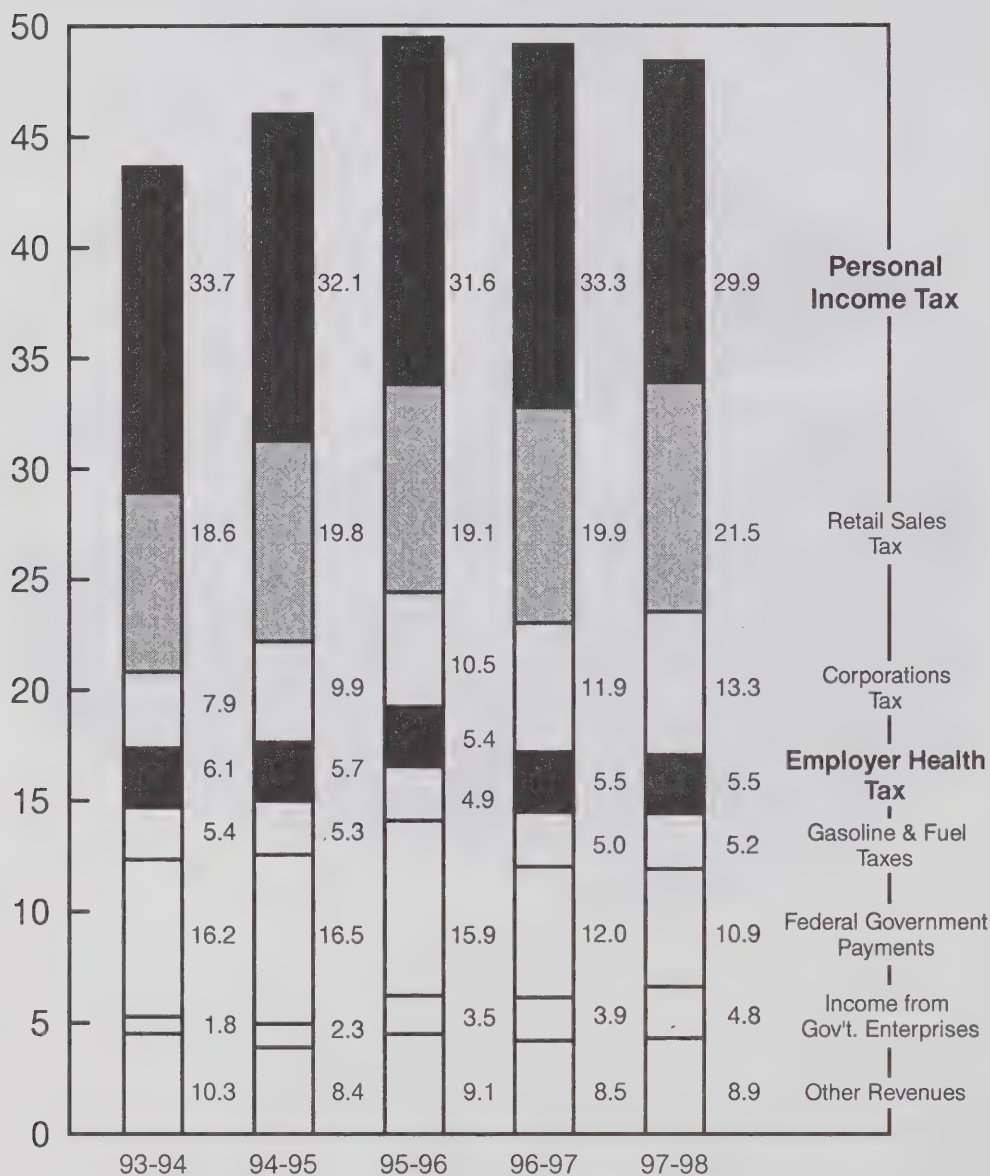


# Revenue Sources by Category

## Per Cent of Total

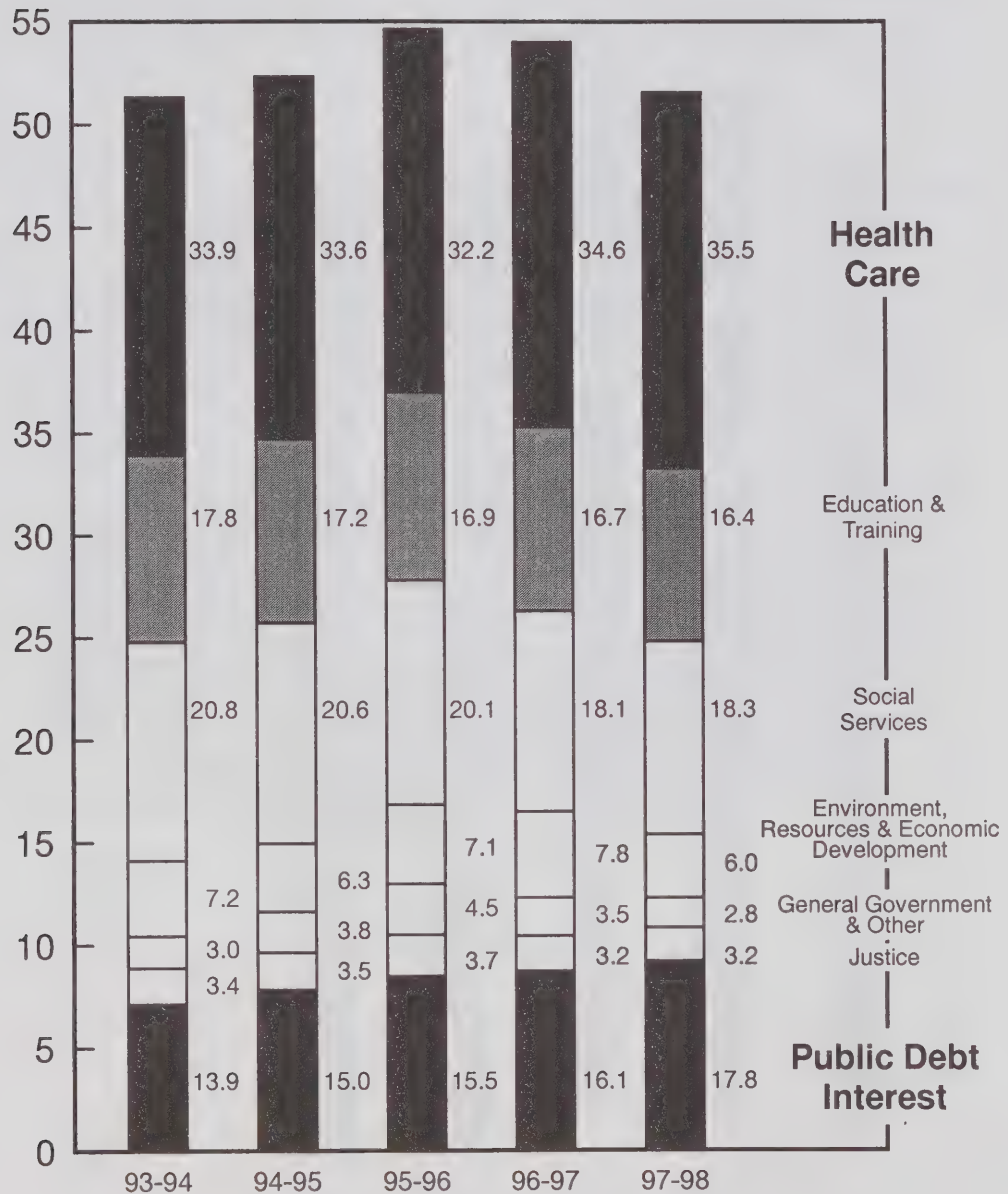
### 1993-94 to 1997-98

\$ Billions



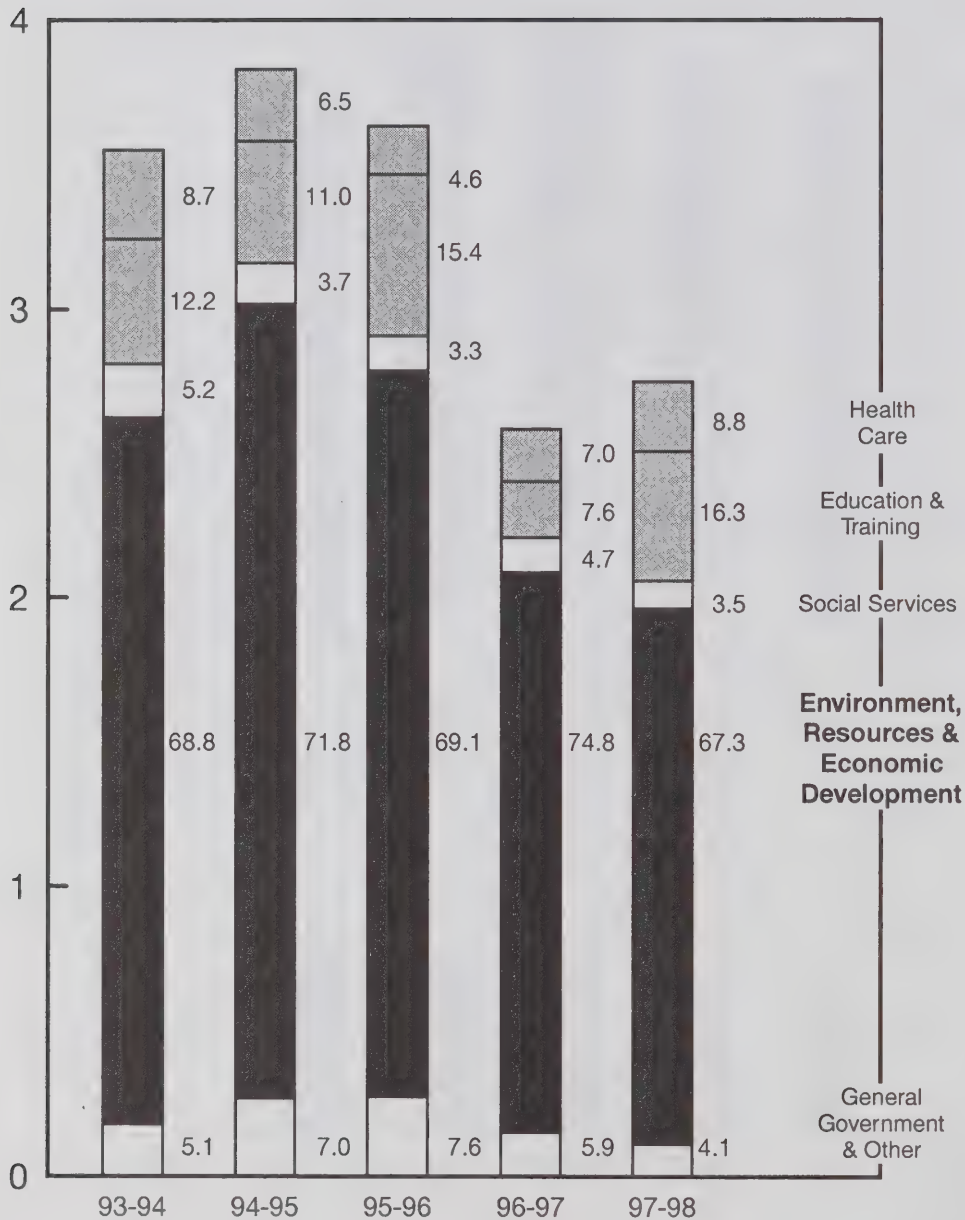
# Operating Expense by Category Per Cent of Total 1993-94 to 1997-98

\$ Billions

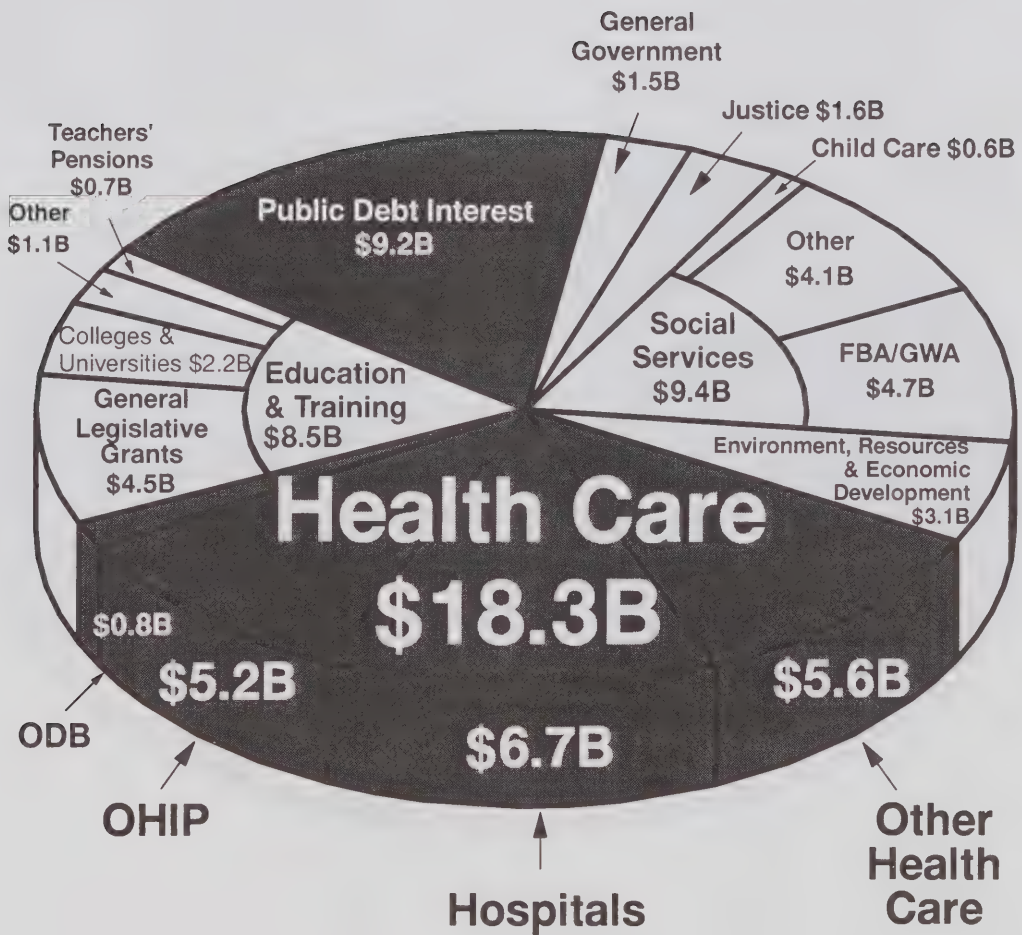


# Capital Expense by Category Per Cent of Total 1993-94 to 1997-98

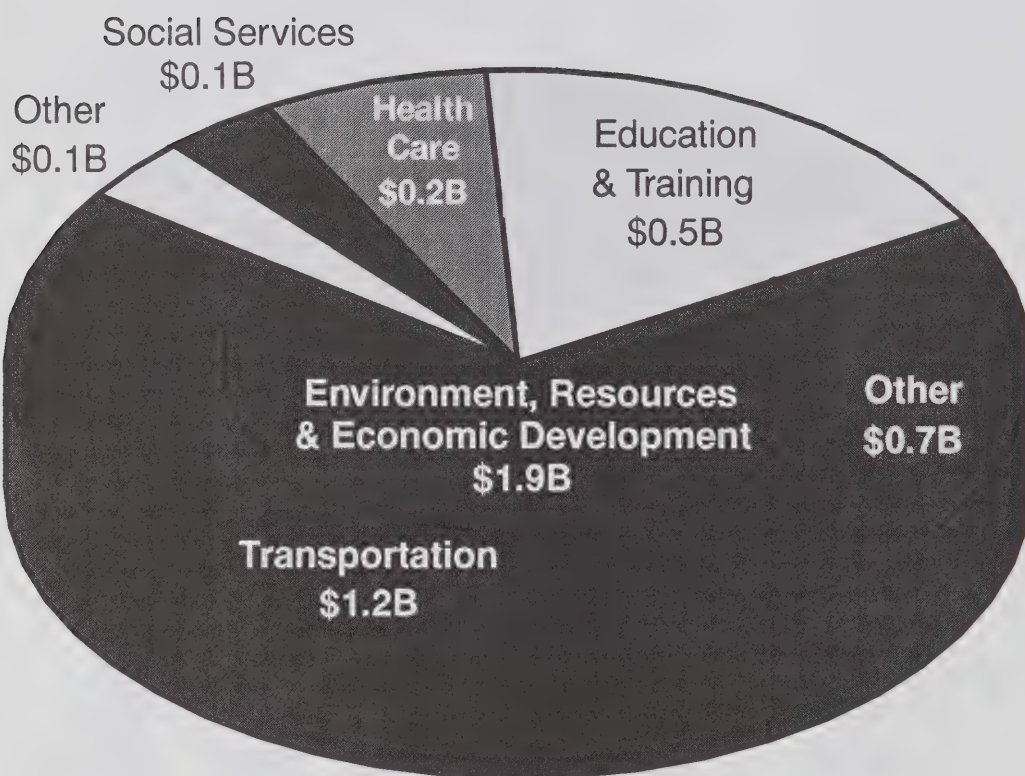
\$ Billions



# 1997-98 Operating Expense by Sector (\$ Billions)



## 1997-98 Capital Expense by Sector (\$ Billions)



# Paper C

## Details Of Revenue Measures



## Details of Revenue Measures

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## Details of Revenue Measures

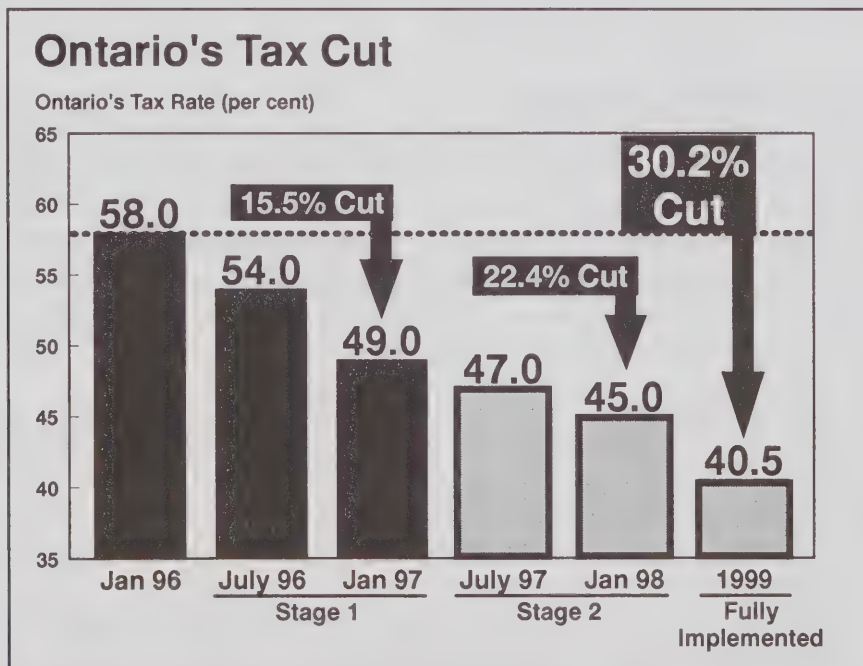
The following sections provide further information on the taxation measures outlined in the Budget. For a precise description of these measures, the reader is advised to consult the amending legislation.

### Income Tax Act

#### *Introduction*

The 1996 Budget announced that Ontario personal income tax would be cut by an average of 30 per cent over three years. When the tax cut is fully implemented in 1999, all taxpayers will pay less Ontario income tax. Lower-income taxpayers will receive a tax cut of greater than 30 per cent, while higher-income taxpayers will see a tax cut of less than 30 per cent.

The personal income tax measures that took effect July 1, 1996 and January 1, 1997 implemented just over half of the promised tax cut. The 1997 Budget implements the next stage of the tax cut. By January 1, 1998, three-quarters of the 30 per cent tax rate cut will be in place.



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***Phases I and II of the 30 Per Cent Ontario Tax Rate Cut***

- ◆ As announced in the 1996 Budget, the Ontario income tax rate for the 1996 taxation year was reduced to 56 per cent of Basic Federal Tax from 58 per cent of Basic Federal Tax.
  - From July 1, 1996 to December 31, 1996, tax was withheld at source at the rate of 54 per cent of Basic Federal Tax.
- ◆ Effective January 1, 1997, the Ontario income tax rate fell to 49 per cent of Basic Federal Tax.

***Phases III and IV of the 30 Per Cent Ontario Tax Rate Cut***

- ◆ For the 1997 taxation year, the Ontario personal income tax rate will be reduced to 48 per cent of Basic Federal Tax from 49 per cent of Basic Federal Tax.
  - From July 1, 1997 to December 31, 1997, tax will be withheld at source at the rate of 47 per cent of Basic Federal Tax.
- ◆ Effective January 1, 1998, the Ontario income tax rate will fall to 45 per cent of Basic Federal Tax.

***Fair Share Health Care Levy***

The Fair Share Health Care Levy (FSHCL) is designed to offset the cost of the employer health tax exemption and is paid only by individuals with incomes in excess of \$50,980 per year. The income tax cut is reduced by the FSHCL, but even the highest income earners will experience a net tax cut. When the income tax cut and the FSHCL are fully implemented, the minimum tax cut will be 16.2 per cent.

- ◆ For the 1997 taxation year, the FSHCL will equal 20 per cent of Ontario income tax in excess of \$4,555 plus 26 per cent of Ontario income tax in excess of \$6,180.
  - From July 1, 1997 to December 31, 1997, the FSHCL will be calculated as 20 per cent of Ontario income tax in excess of \$4,460 plus 28 per cent of Ontario income tax in excess of \$6,000 for the purposes of tax withholdings at source.
- ◆ Effective January 1, 1998, the FSHCL will be calculated as 20 per cent of Ontario income tax in excess of \$4,270 plus 30 per cent of Ontario income tax in excess of \$5,635.

### ***Enhanced Ontario Tax Reduction***

Before Ontario's tax cut was initiated, it was expected that 900,000 Ontarians would have benefited from the Ontario Tax Reduction Program. Adjustments will be made to increase the number of people with low and moderate incomes benefiting from this program. When these adjustments are fully implemented in 1999, Ontario's enrichments will mean that an additional 30,000 families will no longer pay Ontario tax and a further 255,000 will have their Ontario tax reduced. In total, 1,185,000 Ontarians will benefit from this program, including 655,000 individuals who will have their Ontario income tax eliminated.

As the Ontario income tax rate falls, the gross benefits required to maintain the same number of beneficiaries in the Ontario Tax Reduction program also fall. Reductions in the Ontario income tax rate permit a reduction in the Ontario Tax Reduction benefit levels but an increase in the number of beneficiaries.

- ◆ For the 1997 taxation year, the basic reduction will be \$171 and the amount in respect of each dependent child age 18 or under and each dependant with a disability will be \$334.
  - From July 1, 1997 to December 31, 1997, the basic reduction will be \$168 and the amount in respect of each dependent child age 18 or under and each dependant with a disability will be \$333 for purposes of tax withholdings at source.
- ◆ Effective January 1, 1998, the basic reduction will be \$161 and the amount in respect of each dependent child age 18 or under and each dependant with a disability will be \$331.
- ◆ When the adjustments are fully implemented, the basic reduction will be \$145 and the amount in respect of each dependent child age 18 or under and each dependant with a disability will be \$325.

### ***Child Care Tax Credit***

Families with low incomes who incur child care expenses will be eligible for a refundable Ontario Child Care Tax Credit (CCTC).

- ◆ Effective for the 1997 taxation year, the CCTC will be 25 per cent of qualifying child care expenses, to a maximum of \$400 for each child under age 7. The value of the credit will be reduced by 4 per cent of family net income in excess of \$20,000.
  - The credit will be paid as part of the 1997 tax refund.
- ◆ The CCTC will be enriched in subsequent taxation years.

- ◆ Child care expenses that qualify for income tax purposes will be eligible for the Ontario CCTC. To be eligible, child care expenses must be incurred to enable parents to work or attend school full-time and must be supported with receipts.

### ***Concordance with the Income Tax Act (Canada)***

- ◆ The Income Tax Act will be amended to conform with changes to the Income Tax Act (Canada).

### ***A Better Way to Collect Ontario Income Taxes***

The Canada-Ontario Tax Collection Agreement has governed the collection of Ontario's personal income tax for the last 35 years. This agreement gives the federal government substantial control over how Ontario's income tax is applied and requires Ontario to get federal approval for changes that only affect Ontario tax. In exchange, Ontario makes no direct payment to the federal government for the service of collecting its tax.

While there have been some revisions over time, rules and provisions established in 1962 largely define the partnership. These rules are no longer working.

Changes that Ontario has proposed to its income tax that reflect reasonable and legitimate Provincial objectives have been rejected by the federal government. In a little more than a year, the federal government has refused to administer:

- ◆ a Fair Share Health Care Levy, like the one proposed in the *Common Sense Revolution*, on the income earned by high-income people. Instead, Ontario has had to resort to the more complicated surtax approach, with different results than the Government had originally proposed;
- ◆ a simple check off box on Page 4 of the income tax return that would easily allow taxpayers to donate tax refunds to reduce the debt of the Province; and
- ◆ a tax credit to ensure that taxpayers making donations of their current income or more to Crown foundations could get full tax relief in the year in which they made the donation.

These examples do not define an income tax system that reflects the needs of Ontario today and in the coming years. The current agreement impairs the Government of Ontario's ability to carry out the policy mandate

that it believes is in Ontarians' interests. In saying "no" to the policies noted above, the federal government is, in effect, defining what it thinks is in Ontario's interest.

The current Tax Collection Agreement also makes Ontario vulnerable to federal tax base changes which automatically affect Ontario revenues. The terms of the current agreement leave the Province no choice but to automatically adopt most federal income tax changes, including those that the Province does not support.

There are also costs to Ontario taxpayers from participating in the tax collection agreement. For example, the federal government collects over \$1.5 billion in Ontario income tax before remitting any of it to Ontario. This delay results in higher interest costs to the Province, which must be paid for by Ontario taxpayers. The federal government also retains fines, interest and penalties collected on Ontario tax owing. Ontario taxpayers should not have to bear these costs, which we believe are well over \$100 million per year.

Ontario will be examining alternatives to the current Tax Collection Agreement in the coming months. Expert advice will be sought from the private sector on how Ontario could collect its own tax efficiently and at lower cost. It is not clear to Ontario that the current federal approach to defining the tax base and to collecting the resulting tax is the most effective and least costly alternative. The Government believes that the private sector will have a number of useful suggestions for, and a role to play in, structuring and collecting an Ontario income tax.

**All enquiries regarding personal income tax changes  
should be directed to:**

**Taxation Policy Branch  
Ministry of Finance  
5th Floor, Frost Building South  
7 Queen's Park Crescent East  
Toronto, Ontario  
M7A 1Y7**

**English: 1-888-562-4769 or 1-888-JOB-GROW  
French: 1-888-562-4769 or 1-888-JOB-GROW  
Teletypewriter (TTY): 1-800-263-7776**

## **Small Business Development Corporations Act**

### ***Conclusion of Program***

The Government will conclude the five year phase-out of the Small Business Development Corporations program, originally announced in 1993.

- ◆ Effective May 6, 1997, all remaining Small Business Development Corporations will be deregistered.
- ◆ To encourage the retention of invested capital in Ontario small businesses, Small Business Development Corporations in compliance with program requirements on May 5, 1997 will not be required to repay investment incentives.

**All enquiries regarding the Small Business Development Corporations program changes should be directed to:**

**Tax Credits and Grants Branch**

**Ministry of Finance**

**P.O. Box 624**

**33 King Street West**

**Oshawa, Ontario**

**L1H 8H8**

**English: 1-888-562-4769 or 1-888-JOB-GROW**

**French: 1-888-562-4769 or 1-888-JOB-GROW**

**Teletypewriter (TTY): 1-800-263-7776**

## **Retail Sales Tax Act**

Changes to the Retail Sales Tax Act will extend tax relief for farmers, provide fair tax treatment to purchasers of computer programs, and improve support for investment in research and development and manufacturing equipment.

### ***Extending the Rebate on Building Materials for Farmers***

- ◆ The temporary rebate for retail sales tax paid on building materials purchased by farmers, which was announced in the 1996 Budget, will be extended until March 31, 1998. The deadline for submitting claims will be extended to December 31, 1998.

- ◆ Persons engaged in the business of farming who contract out their building project can apply for a rebate of 3 per cent of the total contract price where the price includes the federal goods and services tax (GST), or 3.4 per cent of the contract price if GST is not included. Alternatively, they can claim a rebate on the actual retail sales tax paid if documentation is submitted proving the payment of retail sales tax by the contractor on the materials used.

### ***Application of Retail Sales Tax to Computer Programs***

- ◆ Effective for purchases after May 6, 1997, the application of Ontario's retail sales tax to computer programs will be clarified in legislation. The term "computer program" will be defined in the Retail Sales Tax Act. The policy of taxing pre-written computer programs and exempting custom computer programs remains unchanged.
- ◆ Retail sales tax at 8 per cent will apply to a computer program that is:
  - sold off-the-shelf and pre-packaged with an assumed or adhesion licence agreement;
  - transferred from a seller to a purchaser by disk, tape, chip, electronic or other means; or
  - originally produced for a specific purpose for a purchaser and subsequently resold.
- ◆ Retail sales tax will not apply to:
  - custom computer programs that are new and distinct computer programs designed and developed solely to meet the specific requirements of a particular person;
  - a custom computer program where a related corporation's resources are used to fulfil the customer's requirements; or
  - significant modifications to a computer program as prescribed by the Minister, to meet the requirements of a specific person, such as:
    - modifications after a sale, purchased for more than the price paid for the pre-written program in its unmodified form; or
    - modifications to a pre-written program as a condition of sale where the purchase price is more than double the price of the unmodified program.

### ***Improving the Exemption for R&D Equipment***

- ◆ Currently, qualifying equipment used by manufacturers for a combination of manufacturing and research and development activities is not exempt from retail sales tax even though equipment that is used primarily in manufacturing or exclusively in research and development does qualify. Effective for purchases after May 6, 1997, equipment used exclusively by manufacturers for a combination of these activities will be exempt from retail sales tax.
- ◆ In addition, effective for purchases after May 6, 1997, equipment used exclusively for research and investigation by non-profit medical research facilities will be exempt.

**All enquiries regarding retail sales tax changes should be directed to:**

**Retail Sales Tax Branch  
Ministry of Finance  
P.O. Box 623  
33 King Street West  
Oshawa, Ontario  
L1H 8H7**

**English: 1-888-562-4769 or 1-888-JOB-GROW**

**French: 1-888-562-4769 or 1-888-JOB-GROW**

**Teletypewriter (TTY): 1-800-263-7776**

## **Land Transfer Tax Act**

### ***Land Transfer Tax Refund for First-Time New Home Buyers Extended***

Ontario's successful temporary program to encourage first-time home buyers to purchase new homes is being extended.

- ◆ In accordance with the announcement made on March 31, 1997, the land transfer tax refund on purchases of newly constructed homes by first-time home buyers will be extended to March 31, 1998.
- ◆ The conditions for this refund include the following:
  - the agreement of purchase and sale must be entered into on or before March 31, 1998 (previously March 31, 1997);
  - the purchaser must occupy the newly constructed home as his or her principal residence by December 31, 1998 (previously December 31, 1997);

- the transfer must be registered and the application for the refund must be made by December 31, 1999 (previously December 31, 1998).
- ◆ The refund is available to first-time purchasers of newly constructed homes. The amount of the refund is the entire amount of tax paid or payable, up to a maximum of \$1,725.

### ***Elimination of the Higher Non-Resident Rate of Tax***

The tax premium on foreign investments, first introduced in 1974, is no longer needed.

- ◆ Effective after May 6, 1997, the Land Transfer Tax Act will be amended to eliminate the higher 20 per cent rate of tax paid by non-residents of Canada on the purchase of farm or agricultural land, recreational land, woodlands and orchards.
- ◆ Non-residents of Canada will now pay land transfer tax on the purchase of all land at the same rate as residents.

### **Treatment of Tax Deferrals**

- ◆ The deferred tax will be cancelled and any security provided by the non-resident will be returned where:
  - a deferral of the non-resident portion of the tax had been granted on or before May 6, 1997 and the deferral had not yet expired; or
  - an application to defer the tax was received on or before May 6, 1997.
- ◆ The deferred tax and interest will also be cancelled and any security provided by the non-resident will be returned where, on or before May 6, 1997:
  - a) the non-resident has met the terms of the original deferral; or
  - b) the conditions for the deferral could not be met due to circumstances beyond the control of the non-resident; or
  - c) the non-resident has a long-standing presence in Ontario.
- ◆ Where none of the conditions described above in a), b) or c) apply, the non-resident will have the option of:

- paying a one-time lump sum of 50 per cent of the deferred tax and interest owing on the deferred tax; or
  - having a maximum seven-year extension. At the end of the extension period, if the non-resident has not met the deferral conditions, the higher rate of tax and interest will be paid.
- ◆ A non-resident will be considered to have a long-standing presence in Ontario if:
- the non-resident owned Ontario assets other than the land in question at least equal in value to the value of the consideration paid for the land subject to the deferral in the 12 months prior to May 6, 1997; and
  - carried on an active business in Ontario and employed at least five full-time employees in the province for at least one year prior to May 6, 1997.

**All enquiries regarding land transfer tax changes should be directed to:**

**Motor Fuels and Tobacco Tax Branch  
Ministry of Finance  
P.O. Box 625  
33 King St. West  
Oshawa, Ontario  
L1H 8H9**

**English: 1-888-562-4769 or 1-888-JOB-GROW  
French: 1-888-562-4769 or 1-888-JOB-GROW  
Teletypewriter (TTY): 1-800-263-7776**

## **Corporations Tax Act**

### ***Ontario Business-Research Institute (OBRI) Tax Credit***

To foster world-class research institutions in Ontario and to promote partnerships between business and Ontario post-secondary educational institutions, the Province is introducing the Ontario Business-Research Institute Tax Credit. Ontario corporations will be able to claim a 20 per cent refundable tax credit for research and development (R&D) expenditures incurred in Ontario as part of an eligible research institute contract.

To assist small business, qualifying expenditures will be eligible for both the 20 per cent OBRI tax credit and the 10 per cent Ontario Innovation Tax Credit (OITC) for a combined tax credit of 30 per cent.

### **Eligible Research Institute Contract**

- ◆ An eligible research institute contract will be an R&D contract between a corporation carrying on business through a permanent establishment in Ontario and an eligible research institute, where the R&D is related to a business the corporation carries on in Canada and:
  - the R&D is undertaken by the eligible research institute on the corporation's behalf; or
  - the corporation makes payments to be used by the eligible research institute for the R&D which the corporation is entitled to exploit.
- ◆ As part of the contract, the eligible research institute binds itself to undertake the R&D directly in Ontario.
- ◆ To qualify for this credit, corporations must obtain an advance ruling that the terms of the contract meet the criteria of an eligible research contract.

### **Eligible Research Institute**

- ◆ For R&D that is undertaken on the corporation's behalf, eligible research institutes will be:
  - provincially (Ontario) assisted post-secondary institutions (such as a university or a college of applied arts and technology) and hospital research institutes; and
  - prescribed Ontario non-profit research organizations.
- ◆ Where the corporation makes payments to an eligible research institute to be used for R&D that the corporation is entitled to exploit, the institutes listed above will be eligible research institutes, provided they are also approved for purposes of subparagraph 37(1)(a)(ii) of the Income Tax Act (Canada).

### **Qualifying Expenditures**

- ◆ Qualifying expenditures will be expenditures in respect of scientific research and experimental development activities as defined in the Income Tax Act (Canada), provided that the activities are carried on in Ontario by an eligible research institute under an eligible research institute contract.
- ◆ Total qualifying expenditures eligible for the tax credit will be limited to \$20 million per year per associated group of corporations (prorated for taxation years straddling May 6, 1997).

**Calculation of the OBRI Tax Credit and Interaction with the R&D Super Allowance and the OITC**

- ◆ Corporations will receive a refundable tax credit equal to 20 per cent of qualifying expenditures in respect of an eligible research institute contract.
- ◆ When calculating a corporation's R&D Super Allowance, the OBRI tax credit claimed in a taxation year will reduce the expenditures eligible for the Super Allowance in the taxation year and the expenditure base for subsequent years.
- ◆ Qualifying expenditures for the OBRI tax credit will not be reduced by any OITC claimed in respect of the same expenditures.
- ◆ Qualifying expenditures for the OITC will not be reduced by OBRI tax credits claimed in respect of the same expenditures.
- ◆ Qualifying expenditures for the OBRI tax credit will not be reduced by federal R&D investment tax credits claimed under subsection 127(9) of the Income Tax Act (Canada) in respect of the same expenditures.
- ◆ For partnerships, the OBRI tax credit will be shared by partners in a manner similar to the R&D Super Allowance.

**Restrictions on Eligibility**

- ◆ Where a contract is entered into after May 6, 1997 and can reasonably be considered to be in respect of R&D expenditures covered in an agreement or contract entered into on or before May 6, 1997, the new contract will not be an eligible research contract.
- ◆ To target the OBRI tax credit, various rules will be implemented to:
  - prevent buy-backs of intellectual property rights arising from the results of the R&D;
  - impose restrictions on expenditures made in kind;
  - impose restrictions on contributions by the eligible research institute in respect of an R&D contract; and
  - impose restrictions on arrangements involving the transfer of employees from a corporation to an eligible research institute to carry out R&D under a particular eligible research institute contract.

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## Refunds

- ◆ The OBRI tax credit will be applied against outstanding Ontario tax liabilities and the excess will be refundable.

## Effective Date

- ◆ The OBRI tax credit will be effective for qualifying expenditures incurred after May 6, 1997 in respect of eligible research institute contracts entered into after May 6, 1997.
- ◆ Qualifying expenditures incurred after May 6, 1997 in respect of long-term contracts entered into before May 7, 1997 will also qualify. To qualify as a long-term contract, the contract must continue to at least May 7, 1999.

## *Ontario New Technology Tax Incentive (ONTTI)*

To encourage the development and transfer of new technology, Ontario will provide an immediate 100 per cent deduction of the eligible cost of qualifying intellectual property that is acquired by a corporation in a qualifying intellectual property transfer.

## Qualifying Intellectual Property Transfers

- ◆ A qualifying intellectual property transfer will be an acquisition of knowledge in the form of know-how, techniques, processes or formulas from an unrelated person for the purpose of implementing an innovation or an invention in a business of the corporation that is carried on in Ontario.

## Qualifying Intellectual Property

- ◆ Qualifying intellectual property will be a patent (either domestic or foreign), a licence, a permit, know-how, a commercial secret or other similar property constituting knowledge, but not a trademark, an industrial design, a copyright or other similar property constituting the expression of knowledge.
- ◆ The property must be used in a process of implementing an innovation or invention where the efforts to implement that innovation or invention are carried on exclusively in Ontario.
- ◆ Qualifying intellectual property must be used for at least the entire period of time covering the process of implementing the innovation or invention.
- ◆ The property must be used within a reasonable period of time after its acquisition in the process of implementing the innovation or invention.

**Eligible Costs**

- ◆ Eligible costs will be the capital costs of the qualifying intellectual property.
- ◆ Where a corporation allocates part of its taxable income to another jurisdiction, the eligible costs will be grossed-up by the Ontario allocation factor to ensure that the full value of the deduction is realized.
- ◆ Total eligible costs will be limited to \$20 million per year per associated group of corporations before the gross-up (prorated for taxation years straddling May 6, 1997).

**ONTTI Deduction**

- ◆ Eligible costs, including the gross-up, will be deductible from income tax in the year the property is acquired.
- ◆ Special recapture rules will apply when qualifying intellectual property is disposed of or not used as required above.

**Effective Date**

- ◆ The ONTTI will apply to contracts entered into after May 6, 1997 in respect of eligible costs incurred after August 31, 1997.

***Capital Tax Deduction for R&D Expenditures and ONTTI Costs***

Ontario will reduce the capital tax burden of corporations that have incurred R&D and ONTTI expenditures but have not claimed them for income tax purposes.

- ◆ Currently, a corporation's Ontario paid-up capital is reduced by the corporation's R&D expenditures only where they are deducted for income tax purposes.
- ◆ Effective for taxation years ending after May 6, 1997, the capital tax deduction for R&D expenditures under the Corporations Tax Act will be permitted in the year in which these expenditures are deductible for income tax purposes.
- ◆ Additionally, a capital tax deduction for costs under the ONTTI will be permitted in the year in which these costs are deductible for income tax purposes.

### ***Eliminating Barriers to Technology Transfers: The Add-Back Rule***

Ontario will remove barriers to technology transfers that have existed for decades.

- ◆ The Corporations Tax Act will be amended to correspond to the federal treatment of royalty payments made to non-residents in respect of:
  - computer software; and
  - patents and information concerning industrial, commercial or scientific experience (know-how), including designs, models, plans, secret formulas and processes.
- ◆ As a result, Ontario's 5/15.5 add-back rule will not apply in respect of these royalty payments to related non-residents where the Income Tax Act (Canada) or a tax treaty exempts the payment from federal withholding taxes.
- ◆ This change will be effective for royalties incurred after December 31, 1997.

### ***Ontario Computer Animation and Special Effects Tax Credit***

A new 15 per cent refundable tax credit will be provided to support Ontario computer animation and special effects activities.

- ◆ Effective July 1, 1997, Ontario will provide a tax credit to corporations for Ontario labour expenditures incurred in respect of computer animation and special effects activities carried out in Ontario for use in film or television productions.
- ◆ The Ontario Computer Animation and Special Effects (OCASE) Tax Credit will be a refundable tax credit earned at a rate of 15 per cent of qualifying labour expenditures.

### ***Eligible Computer Animation and Special Effects Activities***

- ◆ Eligible computer animation and special effects activities will be prescribed activities carried out in Ontario in respect of digital animation and digital visual effects for use in film or television productions.
- ◆ Film and television productions must be for commercial exploitation and not in genres that are "excluded productions" for purposes of the Ontario Film and Television Tax Credit (OFTTC).

- ◆ If the activities are in respect of a television production, the production must be suitable for initial broadcast in a time slot that is a minimum of 30 minutes.

### **Qualifying Corporations**

- ◆ A qualifying corporation will be a Canadian corporation that:
  - is performing eligible computer animation and special effects activities either for a film or television production that it is producing or under contract with a producer of a film or television production;
  - has a permanent establishment in Ontario; and
  - is not exempt from taxation under the Corporations Tax Act.

### **Qualifying Labour Expenditures**

- ◆ Qualifying labour expenditures for the OCASE tax credit will be equal to the lesser of:
  - Ontario labour expenditures for eligible computer animation and special effects activities; and
  - 48 per cent of the prescribed cost of eligible computer animation and special effects activities.
- ◆ Ontario labour expenditures will be expenditures incurred after June 30, 1997 in respect of payments made to persons in Ontario who are performing eligible computer animation and special effects activities.

### **Tax Credit Calculation**

- ◆ The OCASE tax credit will be calculated at a rate of 15 per cent of qualifying labour expenditures.
- ◆ The OCASE tax credit will be subject to an annual maximum of \$500,000 per associated group of corporations (prorated for taxation years straddling June 30, 1997).
- ◆ The OCASE tax credit will be applied against outstanding Ontario tax liabilities and any excess will be refundable.

### **Interaction of the OCASE Tax Credit and the OFTTC**

- ◆ A corporation that is a “qualifying production company” for the OFTTC and a “qualifying corporation” for the OCASE tax credit will be eligible for the OFTTC and the OCASE tax credit for those expenditures that qualify for both, without reduction of either tax credit.

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## **Certification**

- ◆ A certificate of eligibility must be obtained from the Ontario Film Development Corporation.
- ◆ The certificate of eligibility must be filed with the qualifying corporation's tax return under the Corporations Tax Act when the OCASE tax credit is claimed.

## ***Enhancement to the Ontario Film and Television Tax Credit***

To maintain Ontario's competitive advantage in the film and television production industry and to promote employment in this sector of Ontario's economy, the Ontario Film and Television Tax Credit (OFTTC) announced in the 1996 Ontario Budget is being enhanced in two respects:

- ◆ for qualifying labour expenditures incurred after May 6, 1997, the OFTTC rate will be increased from 15 per cent to 20 per cent; and
- ◆ the annual OFTTC limit for corporations or associated groups of corporations will be increased from \$2 million to \$3 million for productions commencing after 1996 with qualifying labour expenditures incurred after May 6, 1997; this increase will be prorated for 1997.

The OFTTC is a refundable tax credit available to qualifying production companies for producing eligible film and television productions in Ontario. The credit is calculated on the lesser of Ontario labour expenditures and 48 per cent of the eligible cost of the production.

First-time producers will continue to be eligible for an enhanced rate of 30 per cent on the first \$240,000 of qualifying labour expenditures.

## ***Ontario Book Publishing Tax Credit***

To support first-time Canadian authors, Ontario will provide a refundable tax credit to eligible Ontario book publishing companies for qualifying expenditures in respect of eligible literary works by first-time Canadian authors. The tax credit will be at a rate of 30 per cent on pre-production and promotional costs and 15 per cent on production costs.

## **Eligible Ontario Book Publishing Companies**

- ◆ An eligible Ontario book publishing company will be a Canadian-controlled corporation with a permanent establishment in Ontario, provided that:

- its principal business is book publishing carried on primarily in Ontario;
- it is not controlled directly or indirectly by the first-time Canadian author or any person related to the author; and
- it is not exempt from tax under the Corporations Tax Act.

### **Eligible Literary Works**

- ◆ An eligible literary work will be a non-periodical publication that is categorized as fiction, poetry, creative nonfiction, biography, trade nonfiction or a children's book and that is:
  - authored material of at least 48 printed pages in length (except in the case of children's books);
  - bound as a paperback, trade paperback or hardback;
  - not a self-published title; and
  - not a publication that is prescribed as ineligible.

### **First-Time Canadian Authors**

- ◆ A first-time Canadian author will be a Canadian citizen or landed immigrant, ordinarily residing in Canada with no previously published titles in the particular category of eligible literary work that is being published.

### **Qualifying Expenditures**

- ◆ Qualifying expenditures will be:
  - non-refundable author advances and salaries and other pre-production costs for activities carried out principally in Ontario, including salaries for editing, design and project management, freelance costs for editing, design and research, artwork, development of prototype, and set-up and typesetting;
  - 50 per cent of production costs for activities carried out principally in Ontario, including printing, binding and assembly; and
  - promotional costs incurred within 12 months of the publication date, including advertising, promotional tours of the author and sales salaries but not meals and entertainment.

**Tax Credit**

- ◆ The Ontario Book Publishing Tax Credit will be calculated at a rate of 30 per cent of qualifying expenditures incurred in a taxation year.
- ◆ The maximum tax credit available to an eligible Ontario book publishing company will be limited to \$10,000 per literary work.
- ◆ The credit will be applied against outstanding Ontario tax liabilities and any excess will be refundable.

**Effective Date**

- ◆ The Ontario Book Publishing Tax Credit will be effective for publishing contracts entered into after May 6, 1997.

***Improvements to the Co-operative Education Tax Credit***

To foster greater opportunities for co-operation between businesses and post-secondary educational institutions in providing valuable job experience for Ontario students enrolled in leading-edge technology programs, Ontario will enhance the Ontario Co-operative Education Tax Credit (CETC) introduced in the 1996 Budget.

The current definition of a qualifying co-operative education program under the CETC is based on the Canadian Association for Co-operative Education's definition of a co-operative education program. While there are many leading-edge technology programs which currently meet this definition, there are various programs with alternative study and work experience arrangements that do not. A new component will be added to the definition of co-operative education program to target leading-edge technology programs that do not currently qualify for the CETC.

**New Qualifying Work Placements**

- ◆ New qualifying work placements for a leading-edge technology program will be placements that are recognized by an eligible educational institution as part of a qualifying leading-edge technology program.
- ◆ The eligible educational institution will certify that the education program meets the definition of a qualifying program in leading-edge technology and that the work performed by the student during the work placement is in a related field.
- ◆ The eligible educational institution will issue a voucher to a student enrolled in a leading-edge technology program. The business will use this voucher to support their CETC claims for these placements.

### **Eligible Educational Institutions**

- ◆ An eligible educational institution will be a provincially (Ontario) assisted university, a college of applied arts and technology, the Ontario College of Art and Design, the Michener Institute for Applied Health Sciences and other post-secondary institutions prescribed by the Minister.

### **Tax Credit**

- ◆ The credit will continue to be refundable and equal to 10 per cent of the salaries, wages and benefits paid to the student during the work placement, with a maximum credit of \$1,000 per placement.
- ◆ The CETC in respect of new qualifying work placements will be available to incorporated and unincorporated businesses.

### **Qualifying Leading-Edge Technology Programs**

- ◆ Qualifying leading-edge technology programs could include approved programs of study in fields such as the following:
  - Computer science, e.g., information systems, software engineering and digital animation;
  - Information and telecommunications technology;
  - Natural and medical sciences, e.g., biochemistry, microbiology, metallurgy and material science;
  - Engineering, e.g., environmental, chemical and aerospace.
- ◆ To target the CETC to leading-edge technology programs, Ontario will consult with stakeholders in industry and post-secondary educational institutions prior to finalizing the details of the enhancement.

### **Effective Date**

- ◆ The enhanced credit for leading-edge technology programs will be available for qualifying work placements which commence after December 31, 1997.

### ***Ontario Graduate Transitions Tax Credit***

To encourage business to provide work opportunities to unemployed graduates, Ontario will provide a 10 per cent refundable tax credit to Ontario businesses for qualifying expenditures incurred in hiring Ontario unemployed post-secondary graduates.

## Qualifying Expenditures

- ◆ Qualifying expenditures will be salaries, wages and benefits paid by the employer to the post-secondary graduate in respect of qualifying employment, as reported on the employee's T-4 slip.

## Qualifying Employers

- ◆ Qualifying employers will be Ontario corporations and unincorporated businesses.
- ◆ An Ontario corporation is a corporation that has a permanent establishment in Ontario, other than a corporation exempt from tax under the Corporations Tax Act. Ontario unincorporated businesses are businesses with permanent establishments in Ontario, other than unincorporated businesses carried on by individuals exempt from tax under the Income Tax Act (Ontario).
- ◆ For partnerships, the Ontario Graduate Transitions Tax Credit will be shared by partners in a manner similar to the Ontario Co-operative Education Tax Credit.

## Qualifying Employment

- ◆ Qualifying employment will be the hiring of a qualifying Ontario post-secondary graduate to work at a permanent establishment in Ontario for a period of at least six months.

## Qualifying Post-Secondary Graduates

- ◆ A qualifying post-secondary graduate will be an individual unrelated to the qualifying employer who, within the past three years:
  - has graduated from a recognized program of study; and
  - has been unemployed for at least 16 weeks of the last 32 weeks immediately preceding the first day of qualifying employment.
- ◆ A recognized program of study includes a program in a post-secondary institution that is funded by the Ontario Government or in a private vocational school as prescribed in the Private Vocational Schools Act (Ontario), that results in one of the following post-secondary credentials:
  - a trades certificate or diploma from a vocational school or apprenticeship training;
  - a non-university certificate or diploma from a community college or school of nursing;
  - a university certificate below a bachelor degree;

- a bachelor degree; or
- a university certificate or degree above a bachelor degree.
- ◆ A certificate includes a certificate for a recognized program of academic study or trades training, and for a professional or vocational program. It does not include certificates of completion issued for individual courses or for studies in continuing education or in areas related to personal interest or leisure activities.

### **Tax Credit**

- ◆ Qualifying employers will receive a refundable tax credit equal to 10 per cent of qualifying expenditures paid to qualifying post-secondary graduates in their first 12-month period of employment.
- ◆ The maximum credit for each new hire cannot exceed \$4,000.
- ◆ The credit cannot be claimed until the employee has worked for the minimum six-month period.
- ◆ The credit will be applied against outstanding Ontario tax liabilities and any excess will be refundable.

### **Effective Date**

- ◆ The credit will apply to new hires commencing after May 6, 1997.

## ***Capital Tax Harmonization for Financial Institutions***

In order to simplify and modernize Ontario's capital tax system, the Corporations Tax Act will be amended to follow more closely the federal large corporations tax as it applies to financial institutions.

### **Definition of a Financial Institution**

- ◆ A financial institution for purposes of the Ontario capital tax will be a corporation that at any time in the year is:
  - a bank or credit union (excluding prescribed central credit unions and leagues);
  - authorized under the laws of Canada or a province to carry on the business of offering its services as a trustee to the public;
  - authorized under the laws of Canada or a province to accept deposits from the public and carries on the business of lending money on the security of real estate or investing in mortgages on real estate;

- registered or licensed under the laws of a province to trade in securities, in the capacity of agent or principal, without any restriction as to the types or kinds of securities in which it may trade;
- a mortgage investment corporation, as defined in the Income Tax Act (Canada); or
- a prescribed corporation.

### **Calculation of Paid-up Capital**

- ◆ The taxable paid-up capital of a financial institution will be:
  - its long-term subordinated debt;
  - its capital stock (or members' contributions if it is a corporation without share capital);
  - its retained earnings;
  - its contributed and other surplus;
  - its reserves to the extent that they are not deducted for income tax purposes, but excluding depreciation or depletion reserves; and
  - one-third of the total of all amounts, each of which is the carrying value at the end of the year of an asset of the financial institution that is tangible property used in Ontario.

#### *Less:*

- \$2 million, prorated among related financial institutions with permanent establishments in Ontario.

### **Investment Allowance**

- ◆ A financial institution will be entitled to an allowance to reduce its capital tax payable in a taxation year where it has made an investment in shares or long-term subordinated debt of a related financial institution which is also taxable in Ontario.
  - The amount of the allowance claimed by the investor will recognize the proportion of business done in Ontario by the related financial institution.

### **Tax Rate**

- ◆ The rate of tax payable by a financial institution other than a credit union on taxable paid-up capital allocated to Ontario will be:

- 0.6 per cent on the first \$200 million; and
- 0.9 per cent on any amount in excess of \$200 million.
- ◆ The threshold amount of \$200 million of taxable paid-up capital which is subject to the lower rate of capital tax will be prorated among related financial institutions with permanent establishments in Ontario.

### **Effective Date**

- ◆ Credit unions will be subject to these changes after December 31, 1997.
- ◆ For other financial institutions that are members of a related group of financial institutions with aggregate taxable paid-up capital in excess of \$10 million, these changes will be effective after May 6, 1997, prorated for taxation years straddling May 6, 1997.
- ◆ For the remaining financial institutions, these changes will apply to taxation years beginning after May 6, 1997.

### **Credit Unions**

- ◆ To provide transitional relief, the capital tax on credit unions will be capped at 0.6 per cent and will be phased-in at the following rates:
  - 0.05 per cent on taxable paid-up capital allocated to Ontario, effective after December 31, 1997 and before January 1, 1999 (prorated for taxation years that include these dates);
  - 0.1 per cent on taxable paid-up capital allocated to Ontario, effective after December 31, 1998 and before January 1, 2000 (prorated for taxation years that include these dates);
  - 0.2 per cent on taxable paid-up capital allocated to Ontario, effective after December 31, 1999 and before January 1, 2001 (prorated for taxation years that include these dates);
  - 0.4 per cent on taxable paid-up capital allocated to Ontario, effective after December 31, 2000 and before January 1, 2002 (prorated for taxation years that include these dates); and
  - 0.6 per cent on taxable paid-up capital allocated to Ontario, effective after December 31, 2001 (prorated for taxation years that include this date).

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### ***Parallelling the Federal Temporary Capital Tax Surcharge on Large Deposit-Taking Financial Institutions***

Ontario will harmonize with the federal measure to extend the temporary surcharge on the capital tax of large deposit-taking financial institutions from November 1, 1997 to October 31, 1998.

- ◆ The temporary surcharge will also be extended effective after May 6, 1997 to all large deposit-taking financial institutions.
  - For taxation years that straddle May 6, 1997, the temporary surcharge will be prorated based on the number of days in the taxation year after May 6, 1997.
- ◆ Effective after May 6, 1997, the definition of taxable paid-up capital for the purposes of the temporary surcharge will reflect the new tax base resulting from capital tax harmonization with the federal large corporations tax.
- ◆ The temporary surcharge is equal to 10 per cent of the capital tax levied on a large deposit-taking financial institution's taxable capital over \$400 million.
  - The \$400 million capital deduction will be prorated among related financial institutions with permanent establishments in Ontario.
- ◆ A large deposit-taking financial institution may reduce its liability for the temporary surcharge by the Small Business Investment Tax Credit.

### ***Improving the Small Business Investment Tax Credit for Financial Institutions***

Effective after May 6, 1997, the Small Business Investment Tax Credit, which was announced in the 1996 Budget, will be amended to help target the incentive to more small businesses, to expand eligible investments to include investments in Community Small Business Investment Funds and to extend the credit to all large deposit-taking financial institutions and to credit unions.

The Small Business Investment Tax Credit is earned by deposit-taking financial institutions for eligible investments made to qualifying small businesses. The tax credit reduces a financial institution's Ontario capital tax liability.

**Extension of the Tax Credit to Qualifying Financial Institutions**

- ◆ Effective after May 6, 1997, qualifying financial institutions will be able to reduce their capital tax liability by making investments that qualify for the Small Business Investment Tax Credit.
- ◆ A qualifying financial institution for the purposes of the tax credit will be:
  - a deposit-taking financial institution that is a member of a related group of financial institutions that has aggregate taxable paid-up capital in excess of \$400 million; and
  - a credit union.

**Enriched Credit for Small Patient Capital Investments**

- ◆ To target the credit to smaller growing businesses, the tax credit will be enriched to 75 per cent for small patient capital investments not exceeding \$50,000 in qualifying small businesses with no more than \$500,000 in total assets and gross revenue (including assets and revenue of associated businesses).
- ◆ The enriched tax credit will be reduced from 75 per cent to 20 per cent where the amount of the investment is between \$50,000 and \$100,000 or where the total assets or gross revenue of the qualifying small business (and associated businesses) are between \$500,000 and \$750,000.
  - Where the amount of the investment is above \$50,000 and the total assets or gross revenue of the qualifying small business are greater than \$500,000, both reductions will apply.
- ◆ A small patient capital investment will be an investment made after May 6, 1997 in shares or long-term subordinated debt issued by a qualifying small business that qualifies as an eligible investment under the current tax credit rules.
- ◆ The enriched tax credit rate will only be available if the total of the qualifying financial institution's eligible investments in the small business does not exceed \$100,000.

**New Credit for Small Loans Made at Interest Rates Below Bank Prime**

- ◆ A tax credit of 4 per cent will also be available for small loans not exceeding \$50,000 made to qualifying small businesses with no more than \$500,000 in total assets and gross revenue (including assets and revenue of associated businesses), provided that the loan is made after May 6, 1997 at a rate of interest below bank prime.

- ◆ The tax credit will be equal to 4 per cent of the amount of qualifying loans made by a qualifying financial institution that are outstanding in the year, as adjusted to reflect the period during the year that the amount was outstanding.
- ◆ The maximum amount of tax credits that a qualifying financial institution may claim in a taxation year in respect of below-prime small loans will be 75 per cent of the qualifying financial institution's capital tax that is eligible to be earned back in respect of the taxation year.
- ◆ The tax credit for below-prime small loans will not be available for loans made to persons carrying on prescribed businesses, including professions such as law, dentistry, accounting and medicine.

### **New Credit for Investments in Community Small Business Investment Funds**

- ◆ A qualifying financial institution will be able to claim a 20 per cent tax credit in respect of its investment in a Community Small Business Investment Fund.
  - The credit is to be claimed at the time and to the extent that the Community Small Business Investment Fund reinvests the qualifying financial institution's investment in small businesses.
- ◆ As a temporary incentive, investments made after May 6, 1997 and before January 1, 1999 in Community Small Business Investment Funds will qualify for an immediate 20 per cent tax credit.
- ◆ As a result, a qualifying financial institution may claim a total tax credit of 40 per cent in respect of an investment in a Community Small Business Investment Fund.
- ◆ Further details regarding Community Small Business Investment Funds are contained in Appendix C1.

### **Amount of Capital Tax Eligible to be Earned Back**

- ◆ Effective May 6, 1997, the total capital tax that a qualifying financial institution other than a credit union may earn back in respect of a taxation year will be the total of:
  - its temporary capital tax surcharge in respect of that year; and
  - 20 per cent of its capital tax liability (excluding the temporary surcharge) on its taxable capital over \$400 million in respect of that year.
    - The \$400 million taxable capital threshold will be prorated among related financial institutions with permanent establishments in Ontario.

- For the purposes of the earn back, a qualifying financial institution's capital tax liability for a taxation year that straddles May 6, 1997 will be prorated on the basis of the number of days in the year after May 6, 1997.
- ◆ For a credit union, the amount of capital tax eligible to be earned back in respect of a taxation year will be its total capital tax liability for that taxation year.
- ◆ The credit earned by a qualifying financial institution may be shared with a member of its related group of financial institutions.

### **Earn-Back Period**

- ◆ To claim the tax credit after May 6, 1997 in respect its capital tax liability for a taxation year, a qualifying financial institution must make eligible investments before the end of the second calendar year following the calendar year in which the taxation year ends.
- ◆ Any liability for the temporary capital tax surcharge for a period before May 7, 1997 may be earned back under the new tax credit rules.

### **Consultations**

- ◆ Ontario will consult with small business and financial institutions regarding the implementation of the Small Business Investment Tax Credit for Financial Institutions.

### ***Amendments to the Investment Allowance***

- ◆ The Corporations Tax Act will be amended to exclude from the investment allowance claimed by a corporation in computing capital tax any loans or advances to or bonds, debentures or other securities of a government, Crown corporation or municipal or school corporation. This corresponds to the treatment of these investments under the federal large corporations tax.
- ◆ This measure will be effective for taxation years ending after December 31, 1997.

### ***Amendments Relating to Federal Measures***

- ◆ Changes will be made to the Corporations Tax Act to harmonize with federal income tax changes and effective dates announced in the 1997 federal budget. These include:

- extending the rules for mining reclamation trust funds to include similar trust funds established for waste disposal sites and quarries for the extraction of aggregates; and
- broadening the investor base for renewable energy to include test wind turbines.
- ◆ The Corporations Tax Act will also be amended so that a corporation's losses for Ontario tax purposes will not be affected for corporations that elect to participate in the federal aviation fuel excise tax rebate contained in the 1997 federal budget.
- ◆ Ontario will continue to permit the 100 per cent net income limit to apply to gifts from Ontario corporations to the Crown in right of Ontario and Ontario Crown Agencies, including Crown foundations.

**All enquiries regarding corporations tax changes should be directed to:**

**Corporations Tax Branch  
Ministry of Finance  
P.O. Box 622  
33 King Street West  
Oshawa, Ontario  
L1H 8H7**

**English: 1-888-562-4769 or 1-888-JOB-GROW  
French: 1-888-562-4769 or 1-888-JOB-GROW  
Teletypewriter (TTY): 1-800-263-7776**

## **Other Changes**

### ***Equalizing Passenger Vehicle Registration Fees***

- ◆ Effective for registration renewals and new registrations on or after September 1, 1997, registration fees for passenger cars, commercial motor vehicles weighing 3,000 kilograms or less used for personal purposes, and motorized mobile homes will be equalized at \$74 across Southern Ontario. Fees for northern Ontario will be set at \$37.
  - Fees in the Greater Toronto Area will decrease from \$90 to \$74.
  - Fees in Southern Ontario will increase from \$66 to \$74.
  - Fees in northern Ontario will increase from \$0 to \$37.

- ◆ Registration fees for motorcycles will also be equalized across Southern Ontario at \$42.
  - Fees in the Greater Toronto Area will decrease from \$48 to \$42.
  - Fees in Southern Ontario will increase from \$36 to \$42.
  - Fees in Northern Ontario will increase from \$0 to \$21.
- ◆ Registration fees for mopeds remain at \$12.
- ◆ For those individuals who choose to renew for a two-year period, effective immediately and until September 1, 1997, vehicles being registered in Ontario will be renewed under the current fee structure for 12 months. Thereafter, renewals will be made according to the new rate structure.
- ◆ Registration fees for commercial motor vehicles weighing 3,000 kilograms or less used for commercial purposes and registered in the Greater Toronto Area will be reduced to \$74 from \$90. In the rest of Ontario these fees will be increased from \$72 to \$74.
  - Registration fees for heavy commercial vehicles, heavy commercial farm trucks, and buses remain unchanged.

**All enquiries regarding these changes should be directed to:**

**Licensing and Control Branch  
Ministry of Transportation  
Main Floor, East Building  
2680 Keele Street  
Downsview, Ontario  
M3M 3E6  
English: 1-416-235-2999  
French: 1-416-235-2999  
Teletypewriter (TTY): 1-800-263-7776**

## **Making the Tax System Fairer**

### ***Defeating the Underground Economy***

- ◆ Ontario will implement a number of initiatives targeted at the underground economy and tax evasion, including the following:
  - Negotiations are continuing with Revenue Canada to collect on the Province's behalf the retail sales tax payable on taxable

items brought into the province by residents returning from outside Canada. In addition, discussions will begin with Revenue Canada to obtain information on commercial imports for retail sales tax purposes and with Canada Post to allow for the collection of retail sales tax on taxable items mailed to Ontario residents.

- Retailers convicted of offences under the Retail Sales Tax Act will have their on-line lottery ticket privileges temporarily suspended.
- Staff resources dedicated to the prosecution of strict liability offences under the Retail Sales Tax Act will be increased.
- Overall audit capacity, particularly for commodity taxes will be strengthened further. Electronic systems will be created and enhanced to:
  - allow for the more efficient use of collection, audit and investigative resources;
  - improve information exchange and matching capabilities between various federal, provincial and municipal data bases; and
  - allow for the electronic filing of returns.
- Ontario will participate in Joint Force Investigations with the RCMP, municipal police forces and Revenue Canada to investigate and prosecute tax evasion schemes involving alcohol and tobacco products.
- Ontario will initiate discussions with the other provinces administering their own retail sales taxes to determine methods of collecting retail sales tax on goods ordered in one jurisdiction and delivered to another.
- Ontario will consult with the propane industry on opportunities to streamline propane taxation.

### ***Improving the Objections and Appeals Process***

- ◆ The objections and appeals process will be improved. Changes to Ministry of Finance staffing allocation, procedures and legislation will be implemented to effect a more timely resolution of objections and appeals.
- ◆ Ministry of Finance staff and taxpayers will be encouraged to place more emphasis on the resolution of issues at the pre-objection stage.

- ◆ Taxpayers will be required to:
  - disclose in their notices of objection all issues in dispute;
  - provide the facts and reasons being relied upon in respect of each issue; and
  - respond to requests for facts and reasons relating to the initial notice of objection within 60 days.
- ◆ Taxpayers will not be able to add new issues to the objection, although they will be able to file another objection to a subsequent reassessment for the taxation year. Similarly, appeals may be filed only in respect of issues specified in the original Notice of Objection.
- ◆ The process will also be simplified by no longer requiring objections to be filed in duplicate and by registered mail.
- ◆ Other changes to improve administration and fairness and to standardize procedures across statutes will be implemented where appropriate.
- ◆ Ontario will review the new federal Appeals Renewal Initiative to determine which changes should be adopted.

### ***Inter-Provincial Asset Transfers: Preventing Abuse***

- ◆ Ontario will enact technical changes which will adopt the elective income tax rollover provisions of the Income Tax Act (Canada) more closely.
  - Where a corporation transfers an asset and makes an election under the rollover provisions for federal purposes, Ontario will deem the election to have been made for Ontario purposes, and when a corporation transfers assets but does not make an election for federal purposes, it will not be allowed to make an Ontario election. In addition, Ontario will require that the elected amount for Ontario purposes be the same as the federal elected amount.
  - These restrictions will also apply to other elective situations such as a change of control where corporations are deemed to dispose of property at proceeds of disposition which they can designate.
  - These changes will be effective for rollovers occurring on or after May 6, 1997 and for designations or elections on deemed dispositions occurring in taxation years ending on or after May 6, 1997. However, to avoid disrupting taxpayers who conduct

virtually all of their business in Ontario, the above restrictions will not apply where each party participating in the rollover (or designating or electing proceeds on deemed dispositions) has over 90 per cent of its income allocated to Ontario.

- ◆ In addition, legislative changes will be made to the Corporations Tax Act and the Income Tax Act (Ontario) to adopt the measures to reduce tax avoidance relating to inter-provincial asset transfers which were announced on December 19, 1996. These measures prevent taxpayers from avoiding provincial tax on inter-provincial asset transfers. The rules apply to all dispositions of assets to non-arm's length parties utilizing the federal rollover provisions where the disposition results in either:
  - an undue increase in the tax cost base of the asset transferred; or
  - an undue reduction of the taxpayer's income.
- ◆ These measures to reduce tax avoidance apply to transactions or series of transactions commencing on or after December 19, 1996, and to transactions or series of transactions commencing prior to December 19, 1996 and completed after this date.

### ***Facilitating Hospital Mergers***

- ◆ Relief will be provided to facilitate the restructuring of publicly-funded hospitals for tax liabilities under the Retail Sales Tax Act and the Land Transfer Tax Act.

### ***Fair Tax Treatment for Small Estate Wineries***

- ◆ For the 1998 and subsequent taxation years, buildings located on farms, such as wineries, that are used to process or sell the produce from the farm, will be treated for property assessment purposes in a manner similar to farm residences, i.e., the land under the buildings will be valued as farm land. This will ensure fair and equitable property tax treatment of small estate wineries.

### ***Registered Insurance Brokers***

- ◆ Brokers who place insurance with unlicensed insurers are required under the Registered Insurance Brokers Act to collect and remit the equivalent to the premium tax to the Ontario Insurance Commission.

- ◆ Also, reciprocal or inter-insurance exchanges licensed under the Insurance Act presently remit their premium tax through their attorneys to the Ontario Insurance Commission.
- ◆ The collection of these taxes is being transferred from the Ontario Insurance Commission to the Corporations Tax Branch, which presently collects premium taxes from other insurers. Necessary amendments will be made to the Registered Insurance Brokers Act, the Insurance Act and the Corporations Tax Act effective for taxation years commencing after December 31, 1997.

### ***Other Capital Tax Changes***

#### **Investment Allowance Year-End Transactions**

Corporations may artificially increase their investment allowance claim by advancing funds to related corporations having a different taxation year end. The recipient corporation excludes such advances from paid-up capital by repaying them before their year-end.

- ◆ Effective for taxation years ending on or after October 31, 1997, the Corporations Tax Act will be amended to deny the reduction of paid-up capital in respect of a loan or an advance if it is established that the loan or advance:
  - was made to a related corporation that has a later year-end;
  - was not outstanding 120 days before the year-end of the corporation making the advance; and
  - was made or issued as part of a series of loans or advances and repayments.
- ◆ A loan or advance will generally be considered to be part of a series of loans or advances and repayments where the amount is repaid by the related corporation prior to its year-end and therefore not subject to capital tax.

#### **Investment Allowance Subsidiaries of Financial Institutions**

Corporations may artificially increase their investment allowance claim by advancing funds to a subsidiary of a financial institution on a short-term basis instead of directly to the financial institution.

- ◆ Effective for taxation years ending on or after October 31, 1997, the Corporations Tax Act will be amended to extend the 120-day holding restriction to any arrangement entered into with a corporation related

to a financial institution listed in subclause 62(1)(c)(iv) of the Act where the loan or advance is guaranteed or otherwise secured by the financial institution.

### Other Amendments

To improve the administrative effectiveness and efficiency and maintain the technical integrity of the tax system, various changes will be made to the following Ontario tax statutes:

- ◆ Income Tax Act
- ◆ Labour Sponsored Venture Capital Corporations Act
- ◆ Corporations Tax Act
- ◆ Land Transfer Tax Act
- ◆ Retail Sales Tax Act
- ◆ Fuel Tax Act
- ◆ Gasoline Tax Act
- ◆ Mining Tax Act
- ◆ Race Tracks Tax Act
- ◆ Tobacco Tax Act

These amendments include:

- ◆ enacting legislation similar to the federal government's enhanced garnishment or "super priority" provisions to give Ontario priority over secured creditors for funds held in trust when a garnishment is issued;
- ◆ enacting legislation to clarify that, where a taxable product is sold at a temperature-adjusted volume, the motive fuel tax collected and remitted is based on the temperature-adjusted volume, and where taxable product is sold at the ambient temperature, the motive fuel tax collected and remitted is based on the ambient temperature volume;
- ◆ enacting legislation to extend the reassessment and refund periods to a maximum of four years in tax statutes where this is not currently the case;
- ◆ amending the definition of "sale" in the Retail Sales Tax Act to provide authority for the Minister to prescribe what constitutes a "sale" of telecommunications services in order to eliminate the possibility of double taxation or avoidance of tax;

- ◆ amending the corporate minimum tax provisions in the Corporations Tax Act effective May 6, 1997:
  - to provide a deduction for dividends subject to tax under Part VI.1 of the Income Tax Act (Canada),
  - to exempt dividends of central credit unions that are deductible for income tax purpose, and
  - to ensure that there is no deduction for dividends reclassified for accounting purposes as interest expense; and
- ◆ enacting legislation to make other technical and housekeeping amendments.

**All enquiries regarding tax changes to make the tax system fairer should be directed to:**

**Tax Design and Legislation Branch  
Ministry of Finance  
2nd floor, Frost Building North  
95 Grosvenor St.  
Toronto, Ont.  
M7A 1Y7**

**English: 1-888-562-4769 or 1-888-JOB-GROW  
French: 1-888-562-4769 or 1-888-JOB-GROW  
Teletypewriter (TTY): 1-800-263-7776**

## **Appendix C1**

### ***Framework for Community Small Business Investment Funds***

As noted by the Committee on Small Business Access to Capital, small businesses with \$1 million or less in assets and revenue have difficulty accessing venture capital. These businesses are typically at the seed or start-up phase of development.

Venture capital financing occurs along the continuum of a company's development. Within the venture capital spectrum, seed or early-stage financing would normally be supplied by family members and by the informal venture capital market (commonly referred to as "angels"). Formal venture capitalists provide some capital at the seed stage, but focus predominantly on the middle and later stages of a company's development. Banks and pension funds tend to invest in larger amounts at the later stages of a company's development.

The supply of formal venture capital has grown rapidly in Ontario, primarily as a result of federal and provincial personal income tax incentives to average individuals purchasing shares in labour sponsored investment funds (LSIFs). LSIFs have filled the gap created by the exit of traditional institutional and corporate investors in the late 1980s and early 1990s. The exit of these institutions caused a decline in Ontario's capital under management from \$1.7 billion in 1989 to \$1.2 billion in 1992. LSIF's share of capital under management rose from 11 per cent in 1992, to 30 per cent in 1994. In 1996, Ontario's venture capital market had \$2.8 billion of capital under management, of which LSIFs accounted for one-half.

While the overall supply of venture capital has increased significantly as a result of the LSIF program, there has not been a corresponding increase in the supply for smaller businesses (e.g., under \$1 million in assets) requiring smaller amounts of capital. The imperative is to direct more of the capital raised through tax assistance to the seed or early-stage segment of the market.

To provide small, local growth-businesses with greater access to capital and to complement the LSIF program and the small business investment tax credit for financial institutions, Ontario will introduce the Community Small Business Investment Funds (CSBIF) program. A formal fund approach will encourage capital to be dispersed among many communities, ensure that capital is committed, provide a local, alternative source of patient capital for small businesses in the community and provide a real focus for investment partnerships with the community.

The impetus for the creation of a fund in a particular area or community can emanate from any number of sources, such as the community itself, local angels, a local financial institution or an LSIF. Synergies can result through this arrangement, regardless of who initiates the fund.

The Government believes that promising investment opportunities in early-stage, growing small businesses are available and should be facilitated. The greatest potential for success lies in coordinated action among key players: LSIFs, financial institutions, angels, the Government of Ontario and the federal government. The Government proposes the following framework for CSBIFs.

### **Sponsors**

- ◆ A Community Small Business Investment Fund must be sponsored by: one or more lower-tier or local municipalities within a region, county or district; an upper-tier municipality; or a single-tier municipality. Alternatively, a Community Small Business Investment Fund must be sponsored by one or more universities.

- ◆ Active community participation will be required on an ongoing basis, through community involvement on the Board of the CSBIF by the sponsor or by other persons from the community acceptable to the sponsor.

### **Fund Size/Structure**

- ◆ Minimum fund size of \$5 million and maximum fund size of \$10 million apply. A single investor will be limited to an investment of \$5 million.
- ◆ Closed-end fund with a maximum life of ten years, subject to investors' right of extension.
- ◆ Up to 10 per cent of the fund's capitalization can be used to finance operating expenses over the life of the fund.
- ◆ It is expected that there will be no disbursements to investors from the CSBIF before 90 per cent of the shareholder equity of the CSBIF is invested and until at least the end of the sixth year.
- ◆ Financial institutions and LSIFs are prohibited from recovering any charges or fees from the CSBIF.

### **Governance**

- ◆ Sponsoring entity will have minority representation on the board.
- ◆ Investors will have majority representation on the board.

### **Investment Parameters**

- ◆ Ninety per cent of shareholder equity must be invested; at least 50 per cent must be invested within two and one-half years of capitalization of the CSBIF.
- ◆ Investments will be in qualifying small businesses (deal sizes of under \$250,000).
- ◆ Initial investments in companies with \$1 million or less in assets and revenues.
- ◆ Follow-on financing will be allowed, but no more than one-fifth of the fund's shareholder equity can be invested in any one company.
- ◆ Eligible investments will be restricted to the sponsor's "community."
- ◆ Certain businesses will not qualify for investment (e.g., real estate, personal services corporations and specified investment businesses).

## Financial Penalties

- ◆ Financial penalties will apply if the investment requirements are not fulfilled.

## Sources of Capital

The Government will encourage this new community venture capital focus by re-directing existing tax-assisted pools of capital. An enriched financial institutions' tax credit and investment pacing incentives for LSIFs will encourage the capitalization of CSBIFs.

CSBIFs may also receive capital from local private investors (i.e., angels), local corporations, community organizations and pension funds. Local private investors could also co-invest along side the CSBIF in addition to, or instead of, investing directly in the CSBIF. No incentives are planned to encourage direct investment in CSBIFs by the general public.

## Next Steps

The Government will introduce legislation to create Community Small Business Investment Funds following consultations with communities, LSIFs, local corporations, angels, financial institutions, the federal and municipal governments and other interested parties.

## Labour Sponsored Venture Capital Corporations Act

The Labour Sponsored Venture Capital Corporations Act provisions will be contained in the new Community Small Business Investment Funds Act.

### *Tax Incentives for Investments in CSBIFs*

- ◆ To maximize investments in small and medium-sized businesses and to assist in the capitalization of CSBIFs, LSIFs will be permitted to invest in small businesses through CSBIFs:
  - Effective July 1, 1997, LSIFs will be able to set aside capital in a segregated account for CSBIFs. Each dollar set aside in an account will count as two dollars towards either an LSIF's small business investment requirement or against penalty taxes owing.
  - LSIFs will be allowed to carry forward any unused credit.
  - The incentive will be in effect until December 31, 1998.
  - The capital, including interest, set aside in 1997 must be transferred to a CSBIF within six months after the legislation to establish CSBIFs receives royal assent. The capital, including interest, set aside in 1998 must be transferred to a CSBIF on or before December 31, 1998.

- In addition, qualifying investments made by an LSIF in a CSBIF will count dollar-for-dollar against the LSIF's small business investment requirement when the CSBIF reinvests the amount of the LSIF's investment in small businesses.
- If the capital, including interest, is not transferred to a CSBIF, the LSIF will be required to invest the capital and any interest according to the small business investment requirement within the remaining time of the investment period.

*Small Business Investment by Labour Sponsored Investment Funds*

- ◆ To encourage investment in small business, the small business investment requirement will be increased to 15 per cent for 1997 and 1998 and to 20 per cent for 1999 and subsequent years:
  - For capital raised after May 6, 1997 and before March 2, 1999, the small business investment requirement will be increased to 15 per cent of the capital required to be invested.
  - For subsequent investment periods, which commence on the 61st day of a year and end on the 60th day of the following year, the small business investment requirement will be 20 per cent of the capital required to be invested.

*Concordance with the Income Tax Act (Canada)*

- ◆ Certain provisions relating to LSIFs will be amended to harmonize with proposed 1997 federal budget changes for labour sponsored venture capital corporations:
  - The maximum total investment in an eligible business is increased from the current \$10 million limit to \$15 million.
  - For the purposes of the 500-employee limit, part-time employees will count as one-half an employee.

**All enquiries regarding Community Small Business Investment Funds and Labour Sponsored Investment Funds should be directed to:**

**Taxation Policy Branch  
Ministry of Finance  
5th Floor, Frost Building South  
7 Queen's Park Crescent East  
Toronto, Ontario  
M7A 1Y7**

**English: 1-888-562-4769 or 1-888-JOB-GROW  
French: 1-888-562-4769 or 1-888-JOB-GROW  
Teletypewriter (TTY): 1-800-263-7776**

<b>Revenue Changes: 1997 Budget Impact Summary (\$ million)</b>		<b>Table C1</b>
	<b>1997-98</b>	<b>Full Year</b>
<b>Income Tax Act</b>		
PIT Cut	(625)	(4,815)*
Fair Share Health Care Levy	35	260*
<b>Subtotal</b>	<b>(590)</b>	<b>(4,555)*</b>
Enriched Ontario Tax Reduction for Families	(15)	(25)*
Child Care Tax Credit	(40)	(40)
<b>Small Business Development Corporations Act</b>		
Wind-up of Program	(5)	(10)
<b>Retail Sales Tax Act</b>		
Extended Rebate for Farmers	(10)	(14)
Computer Programs	50	55
Exemption for R&D Equipment for Manufacturers	(4)	(5)
Exemption for Non-Profit Medical R&D Equipment	(4)	(5)
<b>Land Transfer Tax Act</b>		
First-Time New Home Buyers Refund	(16)	(20)
Higher Non-Resident Rate Eliminated	(3)	(3)
<b>Corporations Tax Act</b>		
Ontario Business-Research Institute Tax Credit	(25)	(30)
Eliminating 5% Tax on Technology Transfers	(5)	(30)
Ontario New Technology Tax Incentive	(5)	(10)

\* Reflects full implementation.

Note: 1997 Budget continues phase-in of Employer Health Tax exemption and elimination of self-employed health tax announced in the 1996 Budget

	1997-98	Full Year
Ontario Computer Animation and Special Effects Tax Credit	(7)	(10)
Enrichment to Film and Television Tax Credit	(5)	(7)
Improvements to Co-operative Education Tax Credit *	(2)	(10)
Ontario Graduate Transitions Tax Credit *	(35)	(40)
Ontario Book Publishing Tax Credit	(2)	(3)
Capital Tax Deduction for R&D Expenditures	(1)	(1)
Capital Tax Harmonization for Financial Institutions	40	40
Temporary Capital Tax Surcharge on Large Financial Institutions	10	20
Improvements to Small Business Investment Tax Credit	(40)	(60)
Amendments to the Investment Allowance	0	1
Concordance with the Income Tax Act (Canada)	0	(1)
<b>Making the Tax System Fairer</b>	<b>58</b>	<b>151</b>
<b>Other Changes</b>		
Vehicle Registration Fees	0	0
<b>Total Revenue Changes</b>	<b>(656)</b>	<b>(4,612)</b>

\* Includes credits claimed by unincorporated businesses.

Paper D  
Ontario Financing Operations



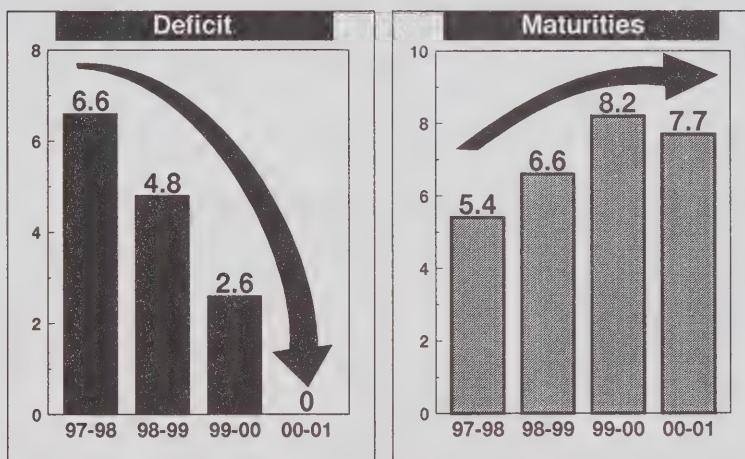
## Introduction

For the second year in a row, the Province has exceeded the deficit targets outlined in the Balanced Budget Plan. In the 1997-98 fiscal year, the provincial deficit will be reduced to \$6.6 billion, a decrease of over 40 per cent from the \$11.3 billion potential deficit outlook facing Ontarians in June 1995.

The Province's financing operations continue to benefit from the Government's Balanced Budget Plan. Declining deficits and lower market rates overall, coupled with narrower interest rate premiums on Ontario bonds and efficient financing operations, have resulted in lower-than-anticipated debt costs. Together, these factors contributed to savings of \$286 million in Public Debt Interest (PDI) charges from estimates forecast in the 1996 Ontario Budget.

### Borrowing Shifting to Refinancing

Deficit and Maturities (1997-98 to 2000-01)

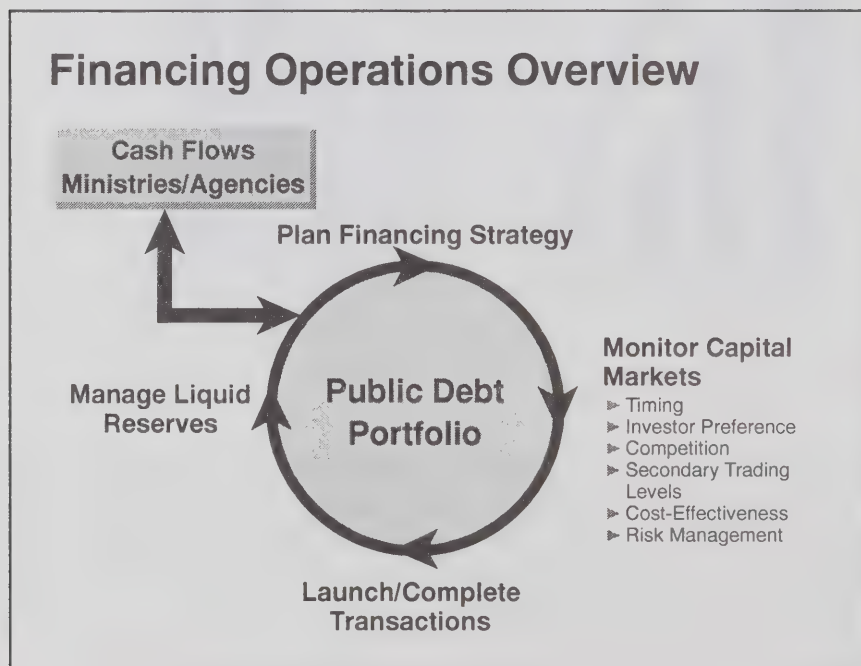


By 1998-99, borrowing to refinance maturing debt (\$6.6 billion) will be higher than borrowing to finance the deficit (\$4.8 billion). As annual deficits fall to zero, the focus of the Province's financing operations will shift toward refinancing existing debt which is maturing. By 2000-01, the Province will be in a position to begin paying down its accumulated debt.

## Financing Operations Overview

Financing operations encompass the following activities.

- ◆ *Borrowing and Corporate Finance*  
Funds are borrowed by issuing fixed income securities in the public capital markets domestically and internationally. The primary goal of this activity is to meet the Province's financial requirements cost-effectively. Pooled funding or alternative financing arrangements reduce financing requirements and/or costs.
- ◆ *Public Debt Management*  
Public debt is actively managed within a framework of strict risk management policies. Goals are to secure cost-effective and stable funding while maintaining a prudent debt profile. Another important aspect of this activity is developing a reliable annual PDI forecast.
- ◆ *Cash Management*  
Cash management includes control of cash flows and banking relationships.



The Ontario Financing Authority carries out these activities for the Province and

The Ontario Financing Authority carries out these activities for the Province and its various Crown corporations and agencies. In addition, it coordinates borrowing strategy with Ontario Hydro to ensure orderly access to domestic and international capital markets.

In performing these activities, the Ontario Financing Authority:

- ◆ develops markets for Ontario debt at home and internationally;
- ◆ actively manages capital market risks;
- ◆ optimizes the use of the Provincial guarantee; and
- ◆ sets the framework for cash management practices.

## Financing Operations Benefit from Strong Fundamentals

Ontario's Financing 1996-97 (\$ Billions)	Actual 1995-96	Budget 1996-97	Interim 1996-97
Deficit	8.8	8.2	7.5
Cash Timing Adjustments	(2.0)	0.1	(1.9)
Net Cash Requirements	6.8	8.3	5.6
Maturities	2.1	6.1	6.4
Borrowing on Behalf of Agencies	(0.1)	0.5	0.3
<b>Total Financing Requirements</b>	<b>8.8</b>	<b>14.9</b>	<b>12.3</b>
<b>Financed by</b>			
Decrease/(Increase) in Liquid Reserves	(3.3)	4.7	5.6
Other Sources	0.1	0.2	0.2
Public Borrowing	12.0	10.0	6.5
<b>Total</b>	<b>8.8</b>	<b>14.9</b>	<b>12.3</b>

Net cash requirements and maturities are the key determinants of borrowing requirements. The net cash requirements are the difference between revenues recognized when cash is received and expenses recognized when cash is disbursed. The deficit is determined on an accrual basis and reports the gap between revenues and expenses attributed to the reporting period.

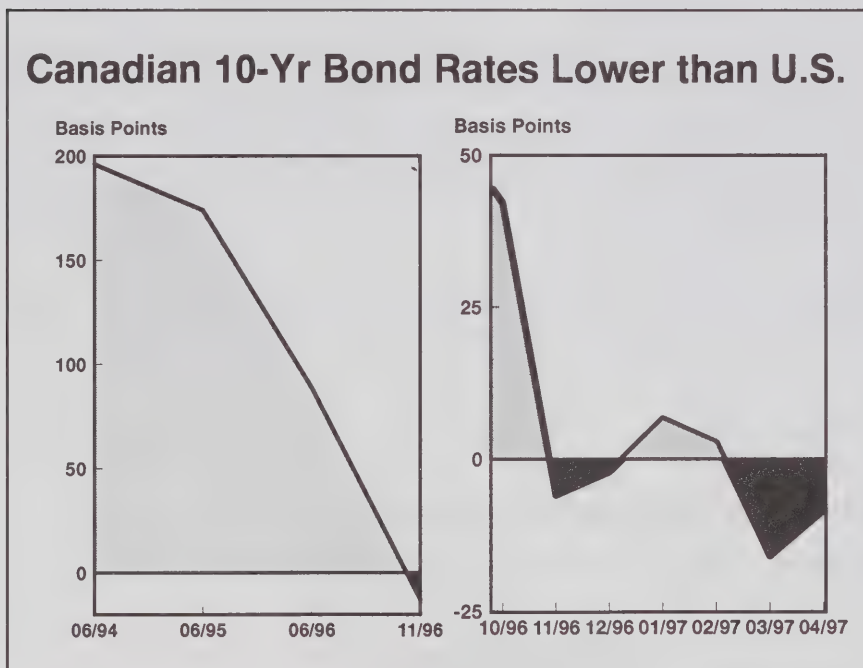
At the beginning of 1996-97, the Province's public borrowing requirements were estimated at \$10 billion. By year-end, however, public borrowing requirements had fallen to \$6.5 billion, primarily as a result of:

- ◆ increased revenues;
- ◆ an additional reduction in liquid reserves;
- ◆ lower expenditures, including interest charges on public debt; and
- ◆ effective debt management activities.

## Canada-U.S. Spreads Lowest in Four Decades

The improvement in Ontario's and Canada's fiscal situation has increased investors' receptiveness to Ontario's debt issues. This, coupled with overall favourable market conditions, has allowed the Province to borrow at the lowest rates since its re-entry into the public capital markets in 1991.

- ◆ Unparalleled in recent history, Canadian 10-year bond rates have edged below the comparable U.S. Treasury benchmark and have held this ground (on a generally sustained basis) since February 1997.



- ◆ In relation to its Government of Canada benchmark, Ontario 10-year bond rates were lower throughout 1996-97 than in 1990-91, when Ontario held a AAA credit rating. On average, Ontario's spreads were 22.5 basis points above Canada's in 1996-97 versus a 57 basis points differential in 1990-91.

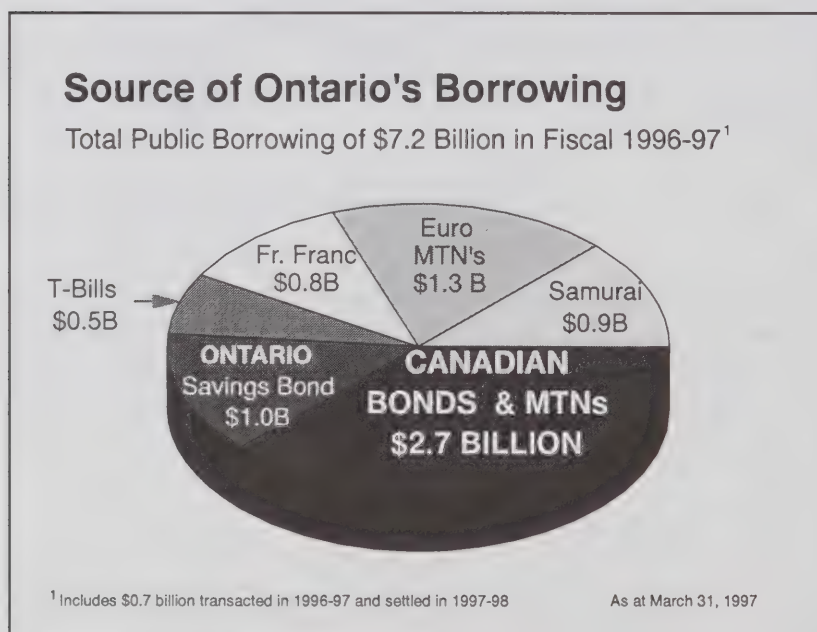
## Financing Activities

In 1996-97, the Ontario Financing Authority borrowed \$7.2 billion in domestic and foreign capital markets. \$6.5 billion of this amount settled in 1996-97 and is reported in the Appendix to this paper. The remaining \$0.7 billion (\$0.6 billion of which was in the Canadian dollar market) settled in early 1997-98.

### *Domestic Financing Activities*

The Canadian dollar market remained Ontario's primary source of funds, accounting for more than half of total borrowing transacted during the year (\$4.2 billion of \$7.2 billion). The following were the key features of the 1996-97 borrowing program:

- ◆ The second Ontario Savings Bond campaign was very successful, raising over \$1 billion.
- ◆ A key feature of the Province's domestic market activity was the use of Canadian Medium Term Notes (CMTNs) targeted to specific retail and institutional investors.
- ◆ Some maturing debt had interest rates as high as 16.9%. This debt was refinanced with long-term Canadian rates as low as 7.5%.



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### ***Foreign Financing Activities***

Internationally, Ontario borrowed in the following currency markets: US\$, Australian\$, New Zealand\$, French Franc, Norwegian Kroner, Japanese yen.

To broaden Ontario's investor base, the Ontario Financing Authority diversified its use of financing instruments.

- ◆ The Province issued its first *samurai* bonds<sup>1</sup>. The three samurai issues launched during the fiscal year comprised almost \$0.9 billion of the over \$2 billion raised from Japanese investors in 1996-97.
- ◆ Ontario's first offer of a FF3 billion (\$0.8 billion) issue was well received in the Euro-French Franc bond market.

Responding to investor demand, the Province doubled the authorized size of the European Medium Term Note (EMTN) program from \$3 billion to \$6 billion. Currently, Ontario has \$3.4 billion outstanding under this program.

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<sup>1</sup> "Samurais" are bonds issued into the Japanese domestic market by non-Japanese entities.

## 1997-98 Borrowing Requirements

For 1997-98, the Province's total financing requirements stand at \$15.2 billion, of which planned long-term borrowing is \$9.9 billion. The balance will be made up from a decrease in liquid reserves, short-term borrowing, and \$0.7 billion in borrowing transacted in 1996-97.

Ontario's Financing (\$ Billions)	1997-98 Budget
Deficit	6.6
Cash Timing Adjustments	2.6
Net Cash Requirements	9.2
Maturities	5.4
Borrowing on Behalf of Agencies	0.6
<b>Total Financing Requirements</b>	<b>15.2</b>
<b>Financed by</b>	
Decrease in Liquid Reserves	3.0
Other Sources	0.1
Financing Already Completed in 1997-98	0.7
Increase in Short-Term Borrowing	1.5
Planned Long-Term Borrowing	9.9
<b>Total</b>	<b>15.2</b>

Net cash requirements and maturities are the key determinants of borrowing requirements. The net cash requirements are the difference between revenues recognized when cash is received and expenses recognized when cash is disbursed. The deficit is determined on an accrual basis and reports the gap between revenues and expenses attributed to the reporting period.

## Capital Markets Outlook

U.S. short-term interest rates are projected to increase, in comparison to 1996-97, as the U.S. Federal Reserve Bank attempts to slow the American economy. This would place upward pressure on Canadian interest rates<sup>2</sup>. As a result, interest charges on planned short- and long-term borrowing may increase this year despite continued positive fiscal fundamentals.

<sup>2</sup> Interest rate assumptions are set out in Budget Paper A.

***Capital Markets Strategy***

As opportunities arise, Ontario will issue bonds and Canadian Medium Term Notes in the domestic market, which continues to represent the Province's most important source of funds.

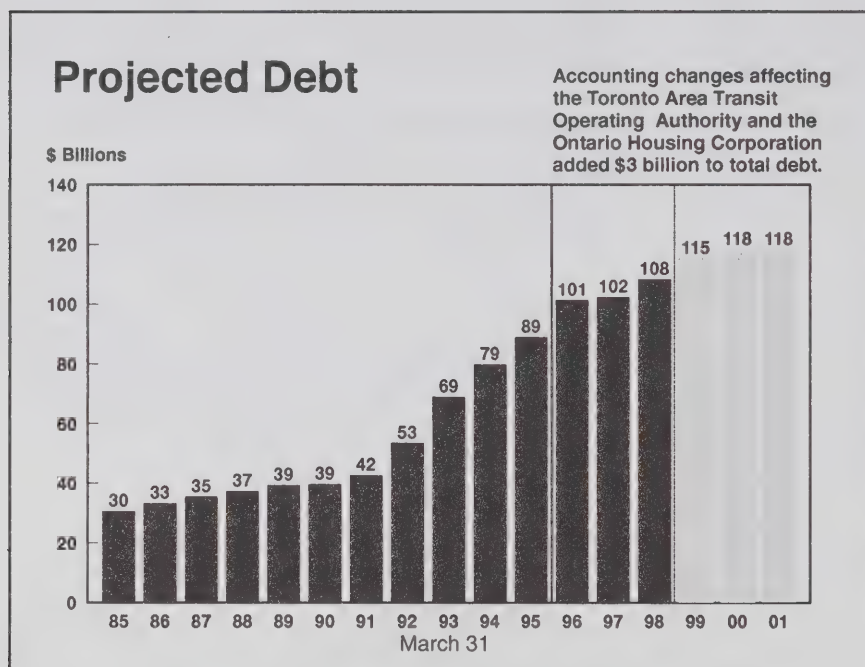
- ◆ A third offering of Ontario Savings Bonds is planned for May and June.

The Ontario Financing Authority will continue to monitor international markets for cost-effective borrowing opportunities.

- ◆ The Province expects to return to the global C\$ and US\$ markets in the coming year. Denominated in a selected currency, a global bond is a debt offering simultaneously issued in multiple international financial markets.
- ◆ The Japanese market remains an important source of cost-effective borrowing.

## Provincial Purpose Debt Stock – Growth in Debt Slows

Total provincial purpose debt, including accounting changes affecting the Toronto Area Transit Operating Authority and the Ontario Housing Corporation, stood at \$102 billion on March 31, 1997, or about a billion dollars lower than forecast in the 1996 Ontario Budget. Without these accounting changes, total debt would have stood at \$99 billion, or almost \$4 billion less than originally forecast. This reflects lower 1996-97 borrowing requirements.



### *Prudent Debt Management*

Prudent debt management is vital to the Government's overall debt reduction efforts. Several key principles guide this activity. These include: managing debt with a view toward ensuring cost effectiveness and stability; maintaining a smooth debt profile (primarily denominated in Canadian dollars) through term selection and other means; and safeguarding Ontario's credit rating.

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### ***Prudent Management of the Public Debt Interest (PDI) Forecast***

If PDI is not forecast accurately, other Government programs may be put at risk during the year. Consequently, PDI budgets are prepared to minimize this possibility by:

- ◆ using prudent forecasts of interest rates which should prevent an over-budget expenditure even if rates rise moderately; and
- ◆ taking careful account of all forecast cash needs of the Province beyond that of the deficit.

### **Cost-Effective and Sound Financing**

PDI savings are achieved through the following successful actions in Ontario's borrowing program:

- ◆ timing issues to take advantage of lower interest rates;
- ◆ realizing savings from increasing financing at short-term rates;
- ◆ capturing savings from foreign exchange differentials;
- ◆ strategic use of international markets when savings opportunities presented.

### **Risk Management Framework**

There are several risks inherent to any financing transaction. The major ones are foreign exchange and interest rate risk. Consequently, in all of its activities, the Ontario Financing Authority is bound by policies which impose strict limits on the type and amount of risk exposure it may assume. The purpose of these policies is to mitigate potential negative impacts associated with interest rate or foreign currency fluctuations and credit losses.

The key elements of Ontario's risk management policy framework are shown below:

<b>Policy Framework</b>	<b>Status on March 31, 1997</b>
<b><i>Interest Rate Exposure</i></b>  The maximum limit on floating rate debt (net of liquid reserves) is 20% of total debt outstanding.	Less than 5%.
<b><i>Foreign Currency Exposure</i></b>  Unhedged debt in foreign currencies is not to exceed 5% of total debt outstanding.	Less than 1%.
<b><i>Counterparty Risk</i></b>  To mitigate interest rate and foreign currency exposure, the Province enters into legal contracts with counterparties.  Ontario only enters into arrangements with counterparties rated double "A" or higher.	Hedge <sup>3</sup> portfolio, notional value, \$90.2 billion.

### ***Debt Profile***

While the majority of the Province's debt (\$66.3 billion) is denominated in C\$, the Province has issued debt in 10 other currencies. At March 31, 1997, all but \$0.8 billion of debt issued by the Province in other currencies had been effectively converted to Canadian dollar debt through prudent financial contract arrangements with counterparties<sup>4</sup>.

Another way in which we manage the debt portfolio prudently is through term selection. The duration of new issues is selected to smooth future borrowing requirements.

<sup>3</sup> A hedge is a financial instrument or contract used to offset risks. For example, where the Province had issued a US\$ global bond, financial contracts would be used to convert foreign currency cash flows into C\$ denominated cash flows.

<sup>4</sup> Under this arrangement, known as a "swap agreement," the parties agree to take responsibility for a financial obligation incurred by the other. Status of exposure to and credit rating of counterparties is monitored daily.

***Safeguarding Ontario's Credit Rating***

Prudent debt management contributes fundamentally to the strength of Ontario's credit. Equally important is the ongoing coordination between the Ontario Financing Authority and Ontario Hydro. By coordinating borrowing strategy, orderly access to capital markets is maintained among issuers relying on the province's credit strength.

## Move to Centralize Financial Activities Pays Dividends

Last year, the Province centralized certain financial activities at the Ontario Financing Authority. This move was taken to reduce duplication, achieve efficiencies and lower overall borrowing costs. As a result of this initiative, opportunities to generate potential annual savings of some \$7 million were identified.

Initiative	1996-97	1997-98
Banking Tender	✓	
Cash Flow Optimization Project		✓
Tender for Fiscal Agents and Custodial Services	✓	
Development of Pooled Fund Structure	✓	
Implementation of Pooled Fund Structure <sup>5</sup>		✓

This year, the Province will look at ways to improve the timeliness of its cash flows, including tax remittances and flows to transfer payment partners. Another area of operations to be reviewed is the expanded use of debit cards and electronic banking technology. As new efficiencies ease cash balance requirements, liquid reserve levels may be lowered, leading to lower Public Debt Interest charges.

<sup>5</sup> A pooled fund structure delivers economies of scale achieving gains associated with timing, liquidity and market access. It represents another way in which use of provincial credit is optimized.

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## Appendix I: Financial Tables

### INTRODUCTION

### CHARTS

Chart 1: Public vs Non-Public Debt

Chart 2: Debt Outstanding by Currency of Issue

### FINANCIAL TABLES

#### Series I:

Table 1(A): Summary of Provincial Purpose Debt

Table 1(B): Ontario's Debt Maturity Schedule

Table 1(C): Description of Derivative Financial Instruments

#### Series II:

Schedule of Outstanding Debt Incurred by the Province of Ontario

## Introduction

The appendix provides in-depth information on the Province's debt portfolio.

Chart 1 displays the distribution of Provincial debt between public and non-public markets as of March 31, 1997. Prior to 1991, the Province mainly financed its borrowing requirements in non-public markets from public sector pension funds and the Canada Pension Plan. In 1991, the Province re-entered public capital markets after the partial deregulation of public sector pension funds in Ontario. As non-public debt matures, it will be refinanced from the public capital markets. Over the last year, the Ontario Financing Authority has replaced maturing debt, borrowed at interest rates as high as 16.9 per cent, with long-term debt at interest rates as low as 7.5 per cent.

The second chart shows debt outstanding by currency. With about \$102 billion in total debt outstanding, the Canadian dollar remains the Province's core market (\$66.3 billion), followed by the U.S. dollar (\$23.5 billion), and the Japanese yen (\$4.9 billion).

Table I(A) is a five-year summary of the Province's public and non-public debt outstanding.

Table I(B) presents the maturity schedule for debt issued by the Province.

Table I(C) summarizes the financial contracts entered into by the Ontario Financing Authority as part of its prudent practices in managing the Province's debt. These contracts limit the exposure to interest rate and currency fluctuations.

Series II displays detailed information, such as date of issue and maturity, interest rates, original and currently outstanding issue amounts, on each of the Province's public and non-public issues.

Chart 1

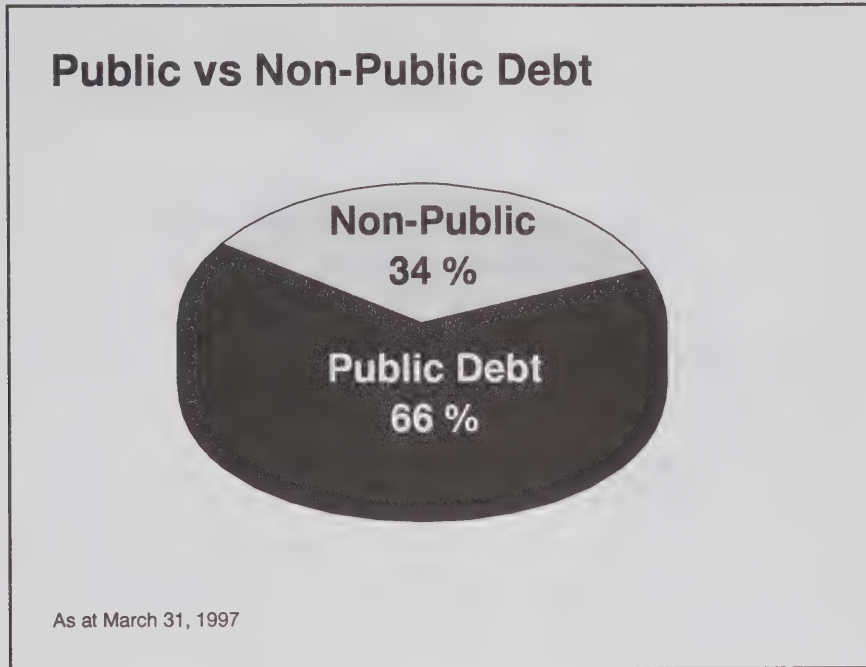
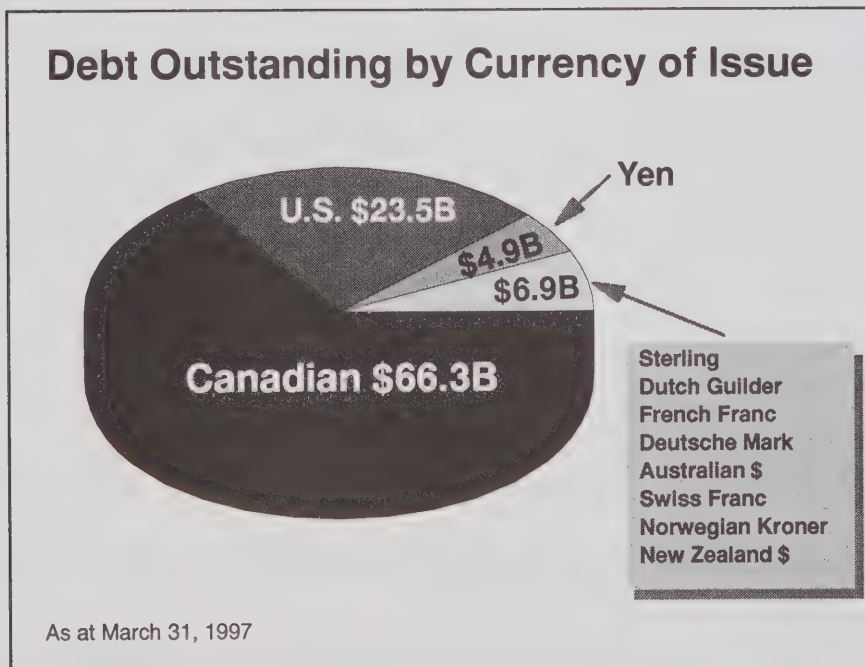


Chart 2



# FINANCIAL TABLES

## TABLE I(A)

### SUMMARY OF PROVINCIAL PURPOSE DEBT

As at March 31,

	1993 <sup>(1)</sup>	1994 <sup>(2)</sup>	1995 <sup>(2)</sup>	1996 <sup>(2)(4)</sup>	Interim 1997 <sup>(2)(4)</sup>
	(in millions)				
<b>Incurred by the Province</b>					
Non-Public Debt					
Minister of Finance of Canada:					
Canada Pension Plan .....	\$13,712	\$13,105	\$12,404	\$11,620	\$10,807
Other .....	20	14	8	4	0
	\$13,732	\$13,119	\$12,412	\$11,624	\$10,807
Ontario Teachers' Pension Fund .....	14,899	14,648	14,584	14,386	14,049
Ontario Municipal Employees Retirement Fund <sup>(5)</sup> .....	1,293	1,164	1,015	742	721
Colleges of Arts and Technology Pension Plan <sup>(5)</sup> .....	---	---	---	91	91
Canada Mortgage & Housing Corporation .....	275	270	264	258	251
Public Service Pension Fund .....	6,046	5,939	3,976	3,884	3,790
Ontario Public Service Employees' Union (OPSEU) Pension Fund .....	---	---	1,859	1,816	1,772
Ryerson Retirement Pension Plan .....	---	---	16	16	9
	\$36,245	\$35,140	\$34,126	\$32,817	\$31,490
<b>Publicly Held Debt</b>					
Debentures and Bonds <sup>(3)</sup> .....	\$26,239	\$38,225	\$49,522	\$60,888	\$61,962
Treasury Bills .....	2,912	2,884	1,921	1,716	2,208
U.S. Commercial Paper <sup>(3)</sup> .....	705	465	142	177	---
	\$29,856	\$41,574	\$51,585	\$62,781	\$64,170
<b>Total Debt Incurred by the Province for Provincial Purposes</b>	<b>\$66,101</b>	<b>\$76,714</b>	<b>\$85,711</b>	<b>\$95,598</b>	<b>\$95,660</b>
<b>Incurred by Government Service Organizations<sup>(4)</sup></b>					
Canada Pension Plan .....	---	---	---	\$1,323	\$1,323
Canada Mortgage & Housing Corporation .....	---	---	---	1,038	1,021
Collateralized Financing .....	---	---	---	430	433
Other .....	---	---	---	18	36
	---	---	---	\$2,809	\$2,813
<b>Total Debt Incurred by Government Service Organizations for Provincial Purposes</b>	<b>---</b>	<b>---</b>	<b>---</b>	<b>\$2,809</b>	<b>\$2,813</b>
<b>Total Debt Incurred for Provincial Purposes</b>	<b>\$66,101</b>	<b>\$76,714</b>	<b>\$85,711</b>	<b>\$98,407</b>	<b>\$98,473</b>
<b>Other</b>					
Province of Ontario Savings Office .....	\$ 2,068	\$ 2,059	\$ 2,089	\$ 2,220	\$ 2,148
Other Liabilities .....	438	666	780	769	1,000
<b>Subtotal</b>	<b>\$ 2,506</b>	<b>\$ 2,725</b>	<b>\$ 2,869</b>	<b>\$ 2,989</b>	<b>3,148</b>
<b>Total Provincial Purpose Debt</b>	<b>\$68,607</b>	<b>\$79,439</b>	<b>\$88,580</b>	<b>\$101,396</b>	<b>\$101,621</b>

Source: Ontario Ministry of Finance

- (1) Figures for fiscal 1992-93 have been prepared on a modified cash basis of accounting and have not been restated to reflect the change to modified accrual and consolidation accounting commenced with the fiscal 1993-94 financial statements, as the necessary adjustments are not reasonably determinable. Therefore, comparisons of information from years prior to fiscal 1993-94 with fiscals 1993-94, 1994-95, 1995-96 and Interim 1997 may not be meaningful.
- (2) Prepared on the basis of modified accrual and consolidation accounting. See Note (1) above.
- (3) All balances are expressed in Canadian dollars. The balances above reflect the effect of related derivative contracts entered into by the Province.
- (4) Figures for Interim 1997 reflect the change in status of Ontario Housing Corporation ("OHC") and the Toronto Area Transit Operating Authority ("TATO") to Government Organizations, which are consolidated on a line-by-line basis. Fiscal 1995-96 figures have been restated to reflect this change. Fiscal 1994-95 and prior years have not been restated as OHC and TATO as Government Enterprises, which are consolidated on the modified equity basis. Therefore, comparisons of information from years prior to fiscal 1995-96 with 1995-96 and interim 1996-97 may not be meaningful.
- (5) The original debentures payable to OMERS were replaced effective December 31, 1995, with debentures payable to OMERS and to Colleges of Applied Arts and Technology in the amounts of \$741.6 million and \$90.9 million, respectively. The terms and conditions remain the same as those of the original debentures.

**TABLE I(B)**  
**ONTARIO'S DEBT MATURITY SCHEDULE**  
**Interim 1997<sup>(1)</sup>**  
(in millions)

	Debt Issued for Provincial Purposes		Ontario Hydro Purposes <sup>(4)</sup>			
Year Ending March 31,	Publicly Held Debt <sup>(2)</sup>	Non-Public Debt	United States Dollar-Denominated <sup>(3)</sup>	Canadian Dollar-Denominated	Total	% of Total
1998 .....	\$ 6,257	\$ 1,260	\$ 0	\$ 0	\$ 7,517	7.4%
1999 .....	4,079	1,701	0	0	5,780	5.7
2000 .....	6,075	2,128	0	0	8,203	8.1
2001 .....	6,022	1,477	0	500	7,999	7.9
2002 .....	6,123	1,542	0	500	8,165	8.0
1998-2002 .....	28,556	8,108	0	1,000	37,664	37.1
2003-07 .....	25,335	11,608	0	119	37,062	36.5
2008-12 .....	866	10,475	0	1,629	12,970	12.8
2013-17 .....	542	3,213	392	0	4,147	4.1
2018-22 .....	1	380	0	0	381	0.3
2023-47 .....	9,304	85	0	0	9,389	9.2
	\$64,604	\$33,869	\$ 392	\$2,748	\$101,613	100.0%

- ) Prepared on the basis of modified accrual and consolidation accounting.
- ) All balances are expressed in Canadian dollars. The balances above reflect the effect of related derivative contracts entered into by the Province.
- ) Translated into Canadian dollar terms at the prevailing exchange rate in effect at the date of the financial statements.
- ) This debt is offset by bonds of Ontario Hydro bearing like terms and conditions to the Ontario obligations.

## Table I(C)

### DESCRIPTION OF DERIVATIVE FINANCIAL INSTRUMENTS

The table below presents a preliminary maturity schedule of the Province's derivative financial instruments, by type, outstanding at March 31, 1997, based on the notional amounts of the contracts.

The Province has sizeable financing requirements, generally to refinance maturing indebtedness and to fund the annual deficit of the Province. To meet these financing requirements in the most cost-effective manner, the Province has issued a variety of debt instruments in domestic and international markets. To take advantage of favourable interest rates, the Province issues debt instruments that are repayable in numerous currencies other than Canadian dollars. The Province uses derivative financial instruments to mitigate exposure to foreign currency and interest rate risks.

#### DERIVATIVE PORTFOLIO NOTIONAL VALUE as at March 31, 1997

Maturity in Fiscal Year	1998	1999	2000	2001	2002	6-10 Years	Over 10 Years	Interim 1997 Total	1995-96 Total
	(in millions)								
Swap:									
Cross Currency .....	\$ 2,907	4,119	5,672	6,022	5,594	21,207	1,243	46,764	\$39,839
Interest Rate .....	5,055	1,335	4,126	4,237	3,155	19,485	65	37,458	32,706
Forward Foreign Exchange									
Contracts .....	2,538	0	0	0	0	0	0	2,538	2,519
Forward Rate Agreements .	925	0	0	0	0	0	0	925	1,258
Futures .....	557	387	291	0	0	0	0	1,235	1,742
Options .....	1,322	0	0	0	0	0	0	1,322	
	\$13,304	5,841	10,089	10,259	8,749	40,692	1,308	90,242	\$78,064

#### Definitions:

**Notional Value:** represents the volume of outstanding contracts. It does not represent cash flows.

**Swap:** a legal arrangement the effect of which is that each of the parties (the counterparties) takes responsibility for a financial obligation incurred by the other counterparty. An interest rate swap exchanges floating interest payments for fixed interest payments or vice versa. A cross-currency swap exchanges principal and interest payments in one currency for cash flows in another currency.

**Forward foreign exchange contracts:** an agreement between two parties to set exchange rates in advance.

**Forward rate agreement (FRA):** an agreement between two parties to set future borrowing lending rates in advance.

**Future:** a contract that confers an obligation to buy/sell a commodity with a specified price and amount, on a future date.

**Option:** a contract that confers a right but not the obligation to buy/sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a fixed future period.

## II Schedule of Outstanding Debt Incurred by the Province of Ontario

Interim as at March 31, 1997

Date of Maturity	Date of Issue	Series	Interest Rate	Original Issue	Outstanding	References
%						
Debt Issued for Provincial Purposes						
(A) PAYABLE IN CANADA IN CANADIAN DOLLARS						
NON-PUBLIC DEBT						
To Minister of Finance of Canada						
Canada Pension Plan Investment Fund:						
Year ending March 31						
1998	1978	CPP	8.77 to 9.37	851,058,000	851,058,000	
1999	1979	CPP	9.35 to 10.16	915,916,000	915,916,000	
2000	1980	CPP	9.98 to 12.74	987,943,000	987,943,000	
2001	1981	CPP	12.50 to 13.39	537,872,000	537,872,000	
2002	1982	CPP	13.66 to 16.10	768,736,000	768,736,000	
2003	1983	CPP	12.01 to 16.53	1,235,751,000	1,235,751,000	
2004	1984	CPP	10.92 to 12.14	1,200,847,000	1,200,847,000	
2005	1985	CPP	12.08 to 14.06	1,133,182,000	1,133,182,000	
2006	1986	CPP	10.58 to 12.57	1,213,502,000	1,213,502,000	
2007	1987	CPP	9.36 to 10.17	232,269,000	232,269,000	
2008	1988	CPP	10.79	42,300,000	42,300,000	
2012	1992	CPP	9.81 to 10.04	987,249,000	987,249,000	
2013	1993	CPP	9.17 to 9.45	700,137,000	700,137,000	
					10,806,762,000	(5)
The Municipal Works Assistance Act:						
Year ending March 31						
1998-1999	1966-1969	MW	5.25 to 5.625	3,887,397	51,082	(1) (8)
					51,082	
Total to Minister of Finance of Canada					10,806,813,082	

## II Schedule of Outstanding Debt Incurred by the Province of Ontario — Continued

Date of Maturity	Date of Issue	Series	Interest Rate %	Original Issue	Outstanding	References
<b>To Ontario Teachers' Pension Fund:</b>						
1998	1973-1991	TI	7.86 to 14.57	226,553,824	226,553,824	
1999	1979-1991	TI	9.51 to 12.73	609,888,869	609,888,869	
2000	1975-1991	TI	8.39 to 13.13	960,288,107	960,288,107	
2001	1981-1991	TI	11.05 to 11.10	717,238,319	717,238,319	
2002	1977-1991	TI	9.54 to 10.11	492,524,321	492,524,321	
2003	1978-1991	TI	9.82 to 10.53	655,570,855	655,570,855	
2004	1982-1984	TI	12.88 to 13.34	900,000,000	900,000,000	
2005	1984-1991	TI	12.60 to 13.27	821,000,000	821,000,000	
2006	1985-1991	TI	11.07 to 14.40	1,070,000,000	1,070,000,000	
2007	1985-1991	TI	10.26 to 13.01	1,185,000,000	1,185,000,000	
2008	1983-1991	TI	10.15 to 15.38	1,945,000,000	1,945,000,000	
2009	1986-1991	TI	10.98 to 11.50	1,465,000,000	1,465,000,000	
2010	1986-1991	TI	10.22 to 11.24	1,236,000,000	1,236,000,000	
2011	1987	TI	10.11 to 10.32	560,000,000	560,000,000	
2012	1988-1991	TI	10.68 to 11.24	580,000,000	580,000,000	
2013	1989-1991	TI	11.06 to 11.31	625,000,000	625,000,000	
					<u>14,049,064,295</u>	(1)
<b>To Ontario Municipal Employees Retirement Fund:</b>						
1998	1996	MER	6.30	24,779,292	24,779,292	
1999	1996	MER	7.21	31,251,467	31,251,467	
2000	1996	MER	8.19	43,849,567	43,849,567	
2001	1996	MER	9.10	52,494,948	52,494,948	
2002	1996	MER	7.85	67,500,000	67,500,000	
2003	1996	MER	8.02 to 10.28	235,259,824	235,259,824	
2004	1996	MER	9.45	163,695,000	163,695,000	
2007	1996	MER	9.77	102,675,000	102,675,000	
					<u>721,505,098</u>	(1)(38)
<b>To Colleges of Applied Arts &amp; Technology Pension Plan:</b>						
Year ending March 31						
1998	1996	CAAT	6.300	120,708	120,708	
1999	1996	CAAT	7.210	1,848,533	1,848,533	
2000	1996	CAAT	8.190	2,850,433	2,850,433	
2001	1996	CAAT	9.100	5,105,052	5,105,052	
2002	1996	CAAT	7.850	7,500,000	7,500,000	
2003	1996	CAAT	8.020 to 10.280	30,540,176	30,540,176	
2004	1996	CAAT	9.450	24,255,000	24,255,000	
2007	1996	CAAT	9.770	18,625,000	18,625,000	
					<u>90,844,902</u>	(1)(38)

## II Schedule of Outstanding Debt Incurred by the Province of Ontario — Continued

Date of Maturity	Date of Issue	Series	Interest Rate %	Original Issue	Outstanding	References
<b>To Ryerson Retirement Pension Plan:</b>						
Year ending March 31						
1998	1995	RRPF	9.51	195,055	195,055	
1999	1995	RRPF	10.07	455,954	455,954	
2000	1995	RRPF	11.53	494,883	494,883	
2001	1995	RRPF	13.40	586,257	586,257	
2002	1995	RRPF	16.95	732,095	732,095	
2003	1995	RRPF	14.65	926,036	926,036	
2004	1995	RRPF	12.78	1,081,061	1,081,061	
2005	1995	RRPF	13.33	1,229,597	1,229,597	
2006	1995	RRPF	11.16	1,464,199	1,464,199	
2007	1995	RRPF	9.64	1,618,485	1,618,485	
					8,783,622	(1)
<b>To Canada Mortgage and Housing Corporation:</b>						
Year ending March 31						
1998-2003	1971 to 1978	CMHC	5.375	688,415	238,340	
1998-2004	1974 to 1975	CMHC	5.125 to 7.875	1,296,489	563,058	
1998-2005	1971 to 1975	CMHC	5.125 to 8.625	2,754,646	1,330,466	
1998-2006	1973 to 1976	CMHC	5.125 to 10.375	2,200,837	1,334,644	
1998-2007	1974 to 1977	CMHC	5.375 to 10.375	6,049,712	3,931,915	
1998-2010	1970 to 1975	CMHC	5.75 to 6.875	4,312,601	2,529,380	
1998-2011	1971 to 1976	CMHC	5.375 to 8.25	5,876,136	4,065,320	
1998-2012	1972	CMHC	6.875 to 8.25	7,281,714	5,133,998	
1998-2013	1973	CMHC	7.25 to 8.25	1,252,053	925,267	
1998-2014	1974	CMHC	6.125 to 8.25	19,734,125	14,763,195	
1998-2015	1975	CMHC	7.50 to 10.375	11,488,523	8,948,832	
1998-2016	1976	CMHC	5.375 to 10.75	22,775,312	18,549,806	
1998-2017	1977	CMHC	7.625 to 10.75	15,797,368	13,429,843	
1998-2018	1977 to 1978	CMHC	7.625 to 13.00	38,133,367	33,669,518	
1998-2019	1977 to 1980	CMHC	7.625 to 15.25	41,958,001	37,774,375	
1998-2020	1978 to 1980	CMHC	7.625 to 15.75	65,976,661	59,987,360	
1998-2021	1981	CMHC	9.50 to 15.75	30,946,135	28,541,408	
1998-2022	1982	CMHC	9.75 to 15.75	1,177,064	1,110,324	
					236,827,049	(7)
<b>Canada Mortgage and Housing Corporation (CMHC) Section 40 Debt:</b>						
1998-2002	1982	CMHC	7.099	36,967,243	14,470,770	(7)
					251,297,819	(2)

## II Schedule of Outstanding Debt Incurred by the Province of Ontario — Continued

Date of Maturity	Date of Issue	Series	Interest Rate %	Original Issue	Outstanding	References
<b>To Public Service Pension Fund:</b>						
Year ending March 31						
1998	1995	OPB	6.00 to 9.34	87,609,022	43,804,511	
1999	1995	OPB	8.06 to 14.71	91,422,347	91,422,347	
2000	1995	OPB	8.39 to 10.17	63,392,463	63,392,463	
2001	1995	OPB	10.04 to 11.61	76,021,114	76,021,114	
2002	1995	OPB	10.10 to 13.48	102,297,560	102,297,560	
2003	1995	OPB	9.81 to 17.11	129,210,911	129,210,912	
2004	1995	OPB	9.50 to 14.81	135,216,734	135,216,734	
2005	1995	OPB	9.82 to 12.89	161,250,034	161,250,034	
2006	1995	OPB	11.05 to 13.48	173,091,180	173,091,180	
2007	1995	OPB	11.16 to 13.47	189,729,593	189,729,593	
2008	1995	OPB	15.38 to 15.51	219,477,038	219,477,038	
2009	1995	OPB	12.79 to 12.89	265,862,487	265,862,487	
2010	1995	OPB	12.88 to 13.02	275,065,772	275,065,772	
2011	1995	OPB	13.33 to 13.48	284,438,456	284,438,456	
2012	1995	OPB	11.55 to 11.67	337,944,621	337,944,621	
2013	1995	OPB	10.38 to 10.40	376,390,480	376,390,480	
2014	1995	OPB	11.10 to 11.19	411,767,291	411,767,291	
2015	1995	OPB	11.19 to 11.31	453,239,493	453,239,493	
					<u>3,789,622,086</u>	(1)(23)
<b>To Public Service Employees' Union Pension Fund:</b>						
Year ending March 31						
1998	1995	OPPT	6.00 to 9.34	40,963,068	20,481,534	
1999	1995	OPPT	8.06 to 14.71	42,746,052	42,746,052	
2000	1995	OPPT	8.39 to 10.17	29,640,210	29,640,209	
2001	1995	OPPT	10.04 to 11.61	35,544,947	35,544,947	
2002	1995	OPPT	10.10 to 13.48	47,830,940	47,830,940	
2003	1995	OPPT	9.81 to 17.11	60,414,729	60,414,729	
2004	1995	OPPT	9.50 to 14.81	63,222,852	63,222,852	
2005	1995	OPPT	9.82 to 12.89	75,395,158	75,395,158	
2006	1995	OPPT	11.05 to 13.48	80,931,685	80,931,685	
2007	1995	OPPT	11.16 to 13.47	88,711,254	88,711,254	
2008	1995	OPPT	15.38 to 15.51	102,620,170	102,620,170	
2009	1995	OPPT	12.79 to 12.89	124,308,466	124,308,466	
2010	1995	OPPT	12.88 to 13.02	128,611,616	128,611,616	
2011	1995	OPPT	13.33 to 13.48	132,993,972	132,993,972	
2012	1995	OPPT	11.55 to 11.67	158,011,676	158,011,676	
2013	1995	OPPT	10.38 to 10.40	175,987,683	175,987,683	
2014	1995	OPPT	11.10 to 11.19	192,528,704	192,528,704	
2015	1995	OPPT	11.19 to 11.31	211,919,728	211,919,728	
					<u>1,771,901,375</u>	(1)(23)
TOTAL NON-PUBLIC DEBT .....					<u><u>31,489,832,279</u></u>	

## II Schedule of Outstanding Debt Incurred by the Province of Ontario — Continued

Date of Maturity	Date of Issue	Series	Interest Rate	Original Issue	Outstanding	References
%						
(A) PAYABLE IN CANADA IN CANADIAN DOLLARS						
<b>PUBLICLY HELD DEBT</b>						
Apr. 16, 1997	Nov. 19, 1991	GZ	8.75	1,500,000,000	1,500,000,000	(1)
Aug. 27, 1998	Aug. 27, 1991	GU	10.20	500,000,000	500,000,000	(1)
Jan. 10, 2001	Jan. 10, 1991	GH	10.875	1,050,000,000	1,050,000,000	(1)
Dec. 12, 2001	Aug. 12, 1991	GS	10.50	600,000,000	600,000,000	(1)
Feb. 4, 2002	Feb. 4, 1997	KP	6.05	125,000,000	125,000,000	(1) (47)
Mar. 11, 2003	Mar. 11, 1993	HK	8.00	1,500,000,000	1,500,000,000	(1)
Apr. 22, 2003	Dec. 29, 1992	HG	8.75	750,000,000	750,000,000	(1)
Dec. 8, 2003	July 20, 1993	HM	7.75	1,250,000,000	1,250,000,000	(1)
Sept. 15, 2004	June 21, 1994	HU	9.00	1,450,000,000	1,450,000,000	(1)
Oct. 12, 2005	Oct. 12, 1995	JR	8.95	65,000,000	65,000,000	(45)
Oct. 27, 2005	Oct. 27, 1995	JS	9.00	55,000,000	55,000,000	(44)
Dec. 1, 2005	Sept. 13, 1995	JP	8.25	1,000,000,000	1,000,000,000	(1)
Jan. 19, 2006	Jan. 19, 1996	JV	7.50	1,250,000,000	1,250,000,000	(1)
Feb. 20, 2006	Feb. 20, 1996	JZ	0.00-17.25	107,000,000	107,000,000	(40) (1)
July 24, 2006	July 24, 1996	KE	7.75	600,000,000	600,000,000	(1)
Jan. 12, 2007	Jan. 12, 1995	JF	9.50	200,000,000	200,000,000	(21) (1)
Oct. 17, 2008	Oct. 17, 1996	KH	6.75-9.375	65,000,000	65,000,000	(3)
Feb. 18, 2013	Feb. 18, 1993	HJ	9.24	250,000,000	250,000,000	(1)
July 13, 2022	July 13, 1992	HC	9.50	1,850,000,000	1,850,000,000	(1)
Sept. 8, 2023	Sept. 8, 1993	HP	8.10	1,350,000,000	1,350,000,000	(1)
Feb. 7, 2024	Feb. 7, 1994	HS	7.50	1,250,000,000	1,250,000,000	(1)
June 2, 2025	Dec. 20, 1994	JE	9.50	500,000,000	500,000,000	(1)
Dec. 2, 2025	Oct. 5, 1995	JQ	8.50	1,000,000,000	1,000,000,000	(1)
Feb. 6, 2026	Feb. 6, 1996	JY	8.00	50,000,000	50,000,000	(1)
June 2, 2026	Dec. 21, 1995	JU	8.00	1,000,000,000	1,000,000,000	(1)
Dec. 2, 2026	Dec. 2, 1996	KL	4.35-7.04	162,000,000	162,000,000	(48)
Dec. 2, 2026	Feb. 13, 1997	KR	8.00	75,000,000	75,000,000	(49)
Feb. 3, 2027	Feb. 3, 1997	KM	7.50	150,000,000	150,000,000	(50)
Feb. 3, 2027	Feb. 21, 1997	KS	6.95	100,000,000	100,000,000	(51)
June 2, 2027	Oct. 7, 1996	KJ	7.60	500,000,000	500,000,000	(1)
Jan. 13, 2031	Sept. 8, 1995	JN	9.50	125,000,000	125,000,000	(1)
Nov. 3, 2034	Nov. 3, 1994	HY	9.75	280,000,000	280,000,000	(1)
Jan. 10, 1995 to Jan. 10, 2035	Nov. 30, 1994	HZ	9.4688	189,616,626	153,840,130	(24)
"	Nov. 30, 1994	JA	9.4688	24,766,559	24,766,559	(24)
"	Nov. 30, 1994	JB	9.4688	8,482,324	8,482,324	(24)
"	Nov. 30, 1994	JC	9.4688	4,764,354	4,764,354	(24)
"	Nov. 30, 1994	JD	9.4688	3,171,134	3,171,134	(24)
Feb. 8, 2035	Feb. 8, 1995	JJ	9.875	73,000,000	73,000,000	(19)
June 20, 2036	June 20, 1996	KC	8.250	88,000,000	88,000,000	(1)
June 20, 2036	July 17, 1996	KC	8.250	123,000,000	123,000,000	(1)
June 20, 2038	Sept. 16, 1996	KG	8.100	120,000,000	120,000,000	(1)
Jan. 10, 2045	May 25, 1995	JL	8.39	35,531,176	35,531,176	(41) (1)
Mar. 1, 2045	Mar. 1, 1995	JK	9.500	150,000,000	150,000,000	(20)
					21,493,555,677	
<b>TREASURY BILLS</b>					2,207,944,000	

## II Schedule of Outstanding Debt Incurred by the Province of Ontario — Continued

Date of Maturity	Date of Issue	Series	Interest Rate	Original Issue	Outstanding	References
			%			
<b>ONTARIO SAVINGS BONDS</b>						
Mar. 1, 2000	Mar. 1, 1995	Annual	Floating	789,297,500	750,620,200	(29)
Mar. 1, 2000	Mar. 1, 1995	Compound	Floating	817,902,500	752,283,200	(30)
June 21, 2001	June 21, 1996	Annual	Step-Up	279,438,300	277,082,100	(61) (62)
June 21, 2001	June 21, 1996	Compound	Step-Up	337,230,000	333,135,100	(61) (62)
June 21, 2001	June 21, 1996	Annual	Variable	220,323,600	188,116,300	(61) (63)
June 21, 2001	June 21, 1996	Compound	Variable	194,594,700	167,447,200	(61) (63)
					2,468,684,100	(1)
TOTAL PAYABLE IN CANADA IN CANADIAN DOLLARS .....					26,170,183,777	
<b>(B) PAYABLE IN EUROPE IN CANADIAN DOLLARS</b>						
Apr. 19, 1998	Apr. 19, 1991	GP	10.25	500,000,000	500,000,000	
July 15, 1998	July 15, 1991	GR	10.625	500,000,000	500,000,000	
July 22, 1999	July 22, 1996	EMTN020	6.25	100,000,000	100,000,000	
Apr. 5, 2001	Feb. 22, 1996	JW	6.23	510,125,000	510,125,000	(42)
Oct. 29, 2001	Oct. 29, 1991	GX	9.75	750,000,000	750,000,000	
Sept. 27, 2005	Sept. 27, 1993	HQ	7.25	500,000,000	500,000,000	
July 13, 2034	July 13, 1994	EMTN005	9.40	300,000,000	300,000,000	
TOTAL PAYABLE IN EUROPE IN CANADIAN DOLLARS .....					3,160,125,000	(1)
LESS: REPURCHASED BY THE PROVINCE						
Apr. 19, 1998	Apr. 19, 1991	GP	10.25	37,000,000	(37,000,000)	
NET PAYABLE IN EUROPE IN CANADIAN DOLLARS					3,123,125,000	
<b>(C) PAYABLE IN CANADA IN U.S. DOLLARS</b>						
Oct. 1, 1997	Oct. 1, 1992	HE	5.70	2,000,000,000	2,000,000,000	
Aug. 17, 1999	Feb. 17, 1994	HT	Floating	2,000,000,000	2,000,000,000	(34)
Jan. 27, 2003	Jan. 27, 1993	HH	7.375	3,000,000,000	3,000,000,000	
June 22, 2004	June 22, 1994	HV	7.625	1,000,000,000	1,000,000,000	
April 24, 2005	April 24, 1995	DMTN01	Floating	100,000,000	100,000,000	(35)
May 1, 2005	May 1, 1995	DMTN02	Floating	100,000,000	100,000,000	(35)
May 9, 2005	May 9, 1995	DMTN03	Floating	100,000,000	100,000,000	(35)
May 16, 2005	May 16, 1995	DMTN04	Floating	100,000,000	100,000,000	(35)
Aug. 4, 2005	Aug. 4, 1995	JM	7.00	1,000,000,000	1,000,000,000	
TOTAL PAYABLE IN CANADA IN U.S. DOLLARS .....					9,400,000,000	(1)
CANADIAN DOLLAR EQUIVALENT EXCHANGE RATE OF \$1.31748 ....					12,384,295,000	(9)
<b>(D) PAYABLE IN THE UNITED STATES IN U.S. DOLLARS</b>						
June 28, 2000	June 28, 1993	HL	6.125	2,000,000,000	2,000,000,000	
Oct. 17, 2001	Oct. 17, 1991	GY	8.00	750,000,000	750,000,000	
June 4, 2002	June 4, 1992	HB	7.75	2,000,000,000	2,000,000,000	
Feb 21, 2006	Feb. 21, 1996	KA	6.00	1,500,000,000	1,500,000,000	
TOTAL PAYABLE IN UNITED STATES IN U.S. DOLLARS .....					6,250,000,000	(1)
CANADIAN DOLLAR EQUIVALENT						
EXCHANGE RATE OF \$1.27612 .....					7,975,753,000	(10)
<b>(E) COMMERCIAL PAPER IN U.S. DOLLARS</b>					0	

## II Schedule of Outstanding Debt Incurred by the Province of Ontario — Continued

Date of Maturity	Date of Issue	Series	Interest Rate	Original Issue	Outstanding	References
%						
<b>(F) PAYABLE IN EUROPE IN U.S. DOLLARS</b>						
Aug. 27, 1998	Aug. 27, 1993	EMTN001	5.125	300,000,000	241,800,000	(1) (39)
Jan. 27, 1999	Jan. 27, 1992	HA	7.00	1,000,000,000	1,000,000,000	(1)
Nov. 18, 1999	Nov. 18, 1996	EMTN027	5.875	60,000,000	60,000,000	(1)
Dec. 17, 1999	Dec. 17, 1996	EMTN030	6.00	¥5,000,000,000	44,648,800	(1) (52)
Jan. 27, 2000	Jan. 30, 1997	EMTN032	5.60	70,000,000	70,000,000	(1)
Nov. 7, 2000	Nov. 7, 1995	EMTN018	5.75	200,000,000	200,000,000	(1)
Feb. 28, 2001	Feb. 28, 1991	GL	8.50	600,000,000	600,000,000	(1)
Jan. 10, 2002	Jan. 10, 1997	EMTN031	Floating	50,000,000	50,000,000	(1) (53)
TOTAL PAYABLE IN EUROPE IN U.S. DOLLARS .....					2,266,448,800	
CANADIAN DOLLAR EQUIVALENT						
EXCHANGE RATE of \$1.19801 .....					2,715,218,280	(11)
<b>(G) PAYABLE IN EUROPE IN POUNDS STERLING</b>						
Sept. 15, 2000	Sept. 15, 1993	HN	6.875	255,000,000	255,000,000	
Feb. 14, 2001	Feb. 14, 1991	GK	11.125	100,000,000	100,000,000	
July 30, 2002	July 30, 1992	HD	9.375	200,000,000	200,000,000	
TOTAL PAYABLE IN EUROPE IN POUNDS STERLING .....					555,000,000	(1)
CANADIAN DOLLAR EQUIVALENT						
EXCHANGE RATE of \$2.11712 .....					1,175,000,000	(12)
<b>(H) PAYABLE IN EUROPE IN SWISS FRANCS</b>						
June 29, 2001	Mar. 29, 1996	KB	4.00	250,000,000	250,000,000	
Jan. 27, 2003	Jan. 27, 1993	HF	6.25	400,000,000	400,000,000	
TOTAL PAYABLE IN EUROPE IN SWISS FRANCS .....					650,000,000	(1)
CANADIAN DOLLAR EQUIVALENT						
EXCHANGE RATE of \$1.10691 .....					719,489,141	(13)
<b>(I) PAYABLE IN JAPAN IN JAPANESE YEN</b>						
Jan. 28, 2003	Jan. 28, 1993	YL	5.50	10,000,000,000	10,000,000,000	(1)
Mar. 24, 2003	Mar. 22, 1993	YL	4.80	7,000,000,000	7,000,000,000	(1)
Aug. 25, 2003	Aug. 25, 1993	YL	Floating	10,000,000,000	10,000,000,000	(1) (4)
Sept. 22, 2003	Sept. 22, 1993	YL	5.20	10,000,000,000	10,000,000,000	(1)
July 6, 2004	July 6, 1994	YL	4.40	10,000,000,000	10,000,000,000	(1)
July 21, 2004	July 21, 1994	YL	4.53	10,000,000,000	10,000,000,000	(1)
July 28, 2004	July 27, 1994	YL	4.55	7,000,000,000	7,000,000,000	(22)
Sept. 8, 2004	Sept. 7, 1994	YL	4.71	7,000,000,000	7,000,000,000	(1)
Oct. 25, 2004	Oct. 25, 1994	YL	5.00	10,000,000,000	10,000,000,000	(1)
Dec. 20, 2004	Dec. 20, 1994	YL	4.80	5,000,000,000	5,000,000,000	(1)
Aug. 31, 2005	Aug. 31, 1995	YL	3.10	25,000,000,000	25,000,000,000	(1)
Mar. 16, 2007	Mar. 18, 1997	KU	3.10	5,000,000,000	5,000,000,000	(1) (54)
Mar. 16, 2007	Mar. 18, 1997	KV	3.25	15,000,000,000	15,000,000,000	(1) (55)
TOTAL PAYABLE IN JAPAN IN JAPANESE YEN .....					131,000,000,000	
CANADIAN DOLLAR EQUIVALENT						
EXCHANGE RATE of \$0.01304 .....					1,708,285,919	(14)

## II Schedule of Outstanding Debt Incurred by the Province of Ontario — Continued

Date of Maturity	Date of Issue	Series	Interest Rate	Original Issue	Outstanding	References
%						
(J) PAYABLE IN EUROPE IN JAPANESE YEN						
Jan. 28, 1999	Jan. 28, 1994	EMTN002	Floating	10,000,000,000	10,000,000,000	(27)
May 27, 1999	May 27, 1994	EMTN003	Floating	10,000,000,000	10,000,000,000	(31)
Sept. 20, 1999	Sept. 20, 1994	EMTN010	4.24	10,000,000,000	10,000,000,000	
Sept. 21, 1999	Sept. 26, 1994	EMTN011	4.43	10,000,000,000	10,000,000,000	
Nov. 18,1999	Nov. 18,1996	EMTN028	5.15	10,000,000,000	10,000,000,000	
Nov. 29, 1999	Nov. 29, 1994	EMTN013	4.50	2,000,000,000	2,000,000,000	
Jan. 25, 2000	Jan. 30, 1995	EMTN014	Floating	10,000,000,000	10,000,000,000	(28)
July 5, 2000	July 5, 1996	EMTN019	2.05	5,000,000,000	5,000,000,000	
Sept. 19, 1996	Sept. 19, 1996	EMTN023	Floating	5,000,000,000	5,000,000,000	(56)
Sept. 26,2000	Sept. 26,1996	EMTN024	Floating	5,000,000,000	5,000,000,000	(56)
June 20, 2001	July 11, 1994	HW	4.40	100,000,000,000	100,000,000,000	
July 12, 2001	July 12, 1994	EMTN006	3.90	5,000,000,000	5,000,000,000	(32)
Nov. 10, 2001	Nov. 10, 1994	EMTN012	4.75	3,000,000,000	3,000,000,000	
Mar. 15, 2005	Mar. 15, 1995	EMTN015	6.00	2,000,000,000	2,000,000,000	(33)
Aug. 29,2006	Aug. 9, 1996	EMTN021	4.28	10,000,000,000	10,000,000,000	(57)
Sept. 8, 2015	Sept. 7, 1995	EMTN016	5.50	10,000,000,000	10,000,000,000	(37)
Sept. 18, 2015	Sept. 18, 1995	EMTN017	5.65	10,000,000,000	10,000,000,000	(36)
TOTAL PAYABLE IN EUROPE IN JAPANESE YEN .....					217,000,000,000	(1)
CANADIAN DOLLAR EQUIVALENT						
EXCHANGE RATE of \$0.01466 .....					3,181,500,933	(15)
(K) PAYABLE IN EUROPE IN DEUTSCHE MARKS						
Jan. 27, 2000	Jan. 27, 1995	JH	Floating	500,000,000	500,000,000	(46)
Feb. 15, 2001	Feb. 15, 1996	JX	5.00	500,000,000	500,000,000	
Jan. 13, 2004	Jan. 13, 1994	HR	6.25	1,500,000,000	1,500,000,000	
TOTAL PAYABLE IN EUROPE IN DEUTSCHE MARKS .....					2,500,000,000	(1)
CANADIAN DOLLAR EQUIVALENT EXCHANGE						
RATE of \$0.89250 .....					2,231,254,639	(16)
(L) PAYABLE IN EUROPE IN NETHERLANDS GUILDERS						
Sept. 27, 2004	Sept. 27, 1994	HX	7.75	500,000,000	500,000,000	
TOTAL PAYABLE IN EUROPE IN NETHERLANDS GUILDERS .....					500,000,000	(1)
CANADIAN DOLLAR EQUIVALENT EXCHANGE						
RATE of \$0.77542 .....					387,710,000	(17)
(M) PAYABLE IN EUROPE IN AUSTRALIAN DOLLARS						
Nov. 9, 1998	Nov. 9, 1995	JT	5.00	600,000,000	600,000,000	
Nov. 18, 1999	Nov. 18,1996	EMTN026	5.72	¥7,000,000,000	79,293,060	(58)
Oct 15, 2001	Oct. 15,1996	EMTN025	5.00	125,000,000	125,000,000	
TOTAL PAYABLE IN EUROPE IN AUSTRALIAN DOLLARS .....					804,293,060	(1)
CANADIAN DOLLAR EQUIVALENT EXCHANGE						
RATE of \$0.95643 .....					769,247,496	(18)

## II Schedule of Outstanding Debt Incurred by the Province of Ontario — Continued

Date of Maturity	Date of Issue	Series	Interest Rate	Original Issue	Outstanding	References
%						
<b>(N) PAYABLE IN JAPAN IN AUSTRALIAN DOLLARS</b>						
Nov. 13, 1998	Nov. 13, 1996	KK	5.20	¥30,000,000,000	333,333,333	(59)
Aug. 26, 1999	Aug. 29, 1996	KF	6.00	¥25,000,000,000	296,278,739	(60)
TOTAL PAYABLE IN JAPAN IN AUSTRALIAN DOLLARS .....					629,612,072	(1)
CANADIAN DOLLAR EQUIVALENT EXCHANGE						
RATE of \$1.06850 .....					672,897,495	(64)
<b>(O) PAYABLE IN EUROPE IN FRENCH FRANCS</b>						
July 29, 2008	July 29, 1996	KD	6.875	3,000,000,000	3,000,000,000	
TOTAL PAYABLE IN EUROPE IN FRENCH FRANCS .....					3,000,000,000	(1)
CANADIAN DOLLAR EQUIVALENT EXCHANGE						
RATE of \$0.26581 .....					797,421,719	(65)
<b>(P) PAYABLE IN EUROPE IN NORWEGIAN KRONER</b>						
Dec. 29, 2004	Sept. 12, 1996	EMTN022	7.000	300,000,000	300,000,000	
TOTAL PAYABLE IN EUROPE IN NORWEGIAN KRONER .....					300,000,000	(1)
CANADIAN DOLLAR EQUIVALENT EXCHANGE						
RATE of \$0.21235 .....					63,704,048	(66)
<b>(Q) PAYABLE IN EUROPE IN NEW ZEALAND DOLLARS</b>						
Nov. 24, 1998	Nov. 20, 1996	EMTN029	7.150	100,000,000	100,000,000	
TOTAL PAYABLE IN EUROPE IN NEW ZEALAND DOLLARS .....					100,000,000	(1)
CANADIAN DOLLAR EQUIVALENT EXCHANGE						
RATE of \$0.95260 .....					95,259,671	(67)
TOTAL PUBLICLY HELD DEBT INCURRED BY PROVINCE FOR						
PROVINCIAL PURPOSES .....					64,170,346,118	
TOTAL DEBT INCURRED BY PROVINCE FOR PROVINCIAL PURPOSES . .					95,660,178,397	

## II Schedule of Outstanding Debt Incurred by the Province of Ontario - Continued

Date of Maturity	Date of Issue	Series	Interest Rate	Original Issue	Outstanding	References
%						
<b>Debt Issued by Government Service Organizations</b>						
<b>(A) PAYABLE IN CANADA IN CANADIAN DOLLARS</b>						
<b>To Minister of Finance of Canada</b>						
<b>Canada Pension Plan Investment Fund:</b>						
Year ending March 31						
2009	1989	CPP	9.15 to 10.31	310,439,000	310,439,000	
2010	1990	CPP	9.78 to 11.33	920,001,000	920,001,000	
2011	1991	CPP	9.81 to 9.86	62,000,000	62,000,000	
2012	1992	CPP	9.00 to 9.45	30,900,000	30,900,000	
					1,323,340,000	(5)
<b>To Canada Mortgage and Housing Corporation:</b>						
Year ending March 31						
1998	N/A	CMHC	5.3750		14,381	
1999	N/A	CMHC	5.3750		68,558	
2003	N/A	CMHC	5.1250		17,539	
2004	N/A	CMHC	5.2068		60,766	
2005	N/A	CMHC	5.1250		44,306	
2006	N/A	CMHC	4.2500		109,631	
2007	N/A	CMHC	4.6739		445,158	
2008	N/A	CMHC	5.8750		310,454	
2009	N/A	CMHC	5.3750		239,501	
2010	N/A	CMHC	6.4598		1,125,218	
2011	N/A	CMHC	6.4159		9,773,767	
2012	N/A	CMHC	5.2994		494,894	
2013	N/A	CMHC	5.3750		7,152,121	
2014	N/A	CMHC	5.6206		21,107,524	
2015	N/A	CMHC	5.8220		19,013,591	
2016	N/A	CMHC	6.1388		50,566,711	
2017	N/A	CMHC	6.2491		77,246,137	
2018	N/A	CMHC	7.1327		62,205,075	
2019	N/A	CMHC	5.875 to 7.6159		66,018,699	
2020	N/A	CMHC	5.750 to 7.850		218,302,323	
2021	N/A	CMHC	6.875 to 7.5596		109,179,593	
2022	N/A	CMHC	7.740 to 8.250		105,480,785	
2023	N/A	CMHC	6.875 to 8.625		87,746,894	
2024	N/A	CMHC	7.625 to 7.750		73,913,623	
2025	N/A	CMHC	7.7400		57,709,384	
2026	N/A	CMHC	7.7400		24,138,143	
2027	N/A	CMHC	7.7400		24,415,651	
2028	N/A	CMHC	7.7400		3,687,335	
					1,020,587,762	(7)

## II Schedule of Outstanding Debt Incurred by the Province of Ontario - Continued

Date of Maturity	Date of Issue	Series	Interest Rate	Original Issue	Outstanding	References
			%			
1998 to 2001	N/A	Various Mortgages	Various	N/A	<u>35,138,815</u>	(25)
TOTAL PAYABLE IN CANADA IN CANADIAN DOLLARS					<u><u>2,379,066,577</u></u>	
<b>(B) PAYABLE IN THE UNITED STATES IN U.S. DOLLARS</b>						
July 1, 2006	Mar 31, 1994	Collateralized financing	7.261 to 7.395	311,866,966	314,986,977	(26)
TOTAL PAYABLE IN UNITED STATES IN U.S. DOLLARS .....					<u>314,986,977</u>	
CANADIAN DOLLAR EQUIVALENT						
EXCHANGE RATE OF \$1.37597.....					<u>433,412,894</u>	(43)
TOTAL DEBT ISSUED BY GOVERNMENT SERVICE ORGANIZATIONS FOR PROVINCIAL PURPOSES .....					<u><u>2,812,479,471</u></u>	
<b>TOTAL DEBT INCURRED FOR PROVINCIAL PURPOSES .....</b>					<u><u>98,472,657,868</u></u>	

## II Schedule of Outstanding Debt Incurred by the Province of Ontario - Continued

Date of Maturity	Date of Issue	Series	Interest Rate	Original Issue	Outstanding	References
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%

### Debt Issued for Ontario Hydro

#### (A) PAYABLE IN CANADA IN CANADIAN DOLLARS

##### NON-PUBLIC DEBT

##### Canada Pension Plan Investment Fund

2001	1981	CPP	11.61 to 13.46	500,000,000	500,000,000
2002	1982	CPP	14.81 to 17.51	500,000,000	500,000,000
2007	1987	CPP	9.64	119,000,000	119,000,000
2008	1988	CPP	9.13 to 9.72	388,715,000	388,715,000
2009	1989	CPP	9.62 to 10.31	589,319,000	589,319,000
2010	1990	CPP	9.61 to 10.31	650,712,000	650,712,000
TOTAL PAYABLE IN CANADA IN CANADIAN DOLLARS .....					2,747,746,000

(5)

#### (B) PAYABLE IN NEW YORK IN U.S. DOLLARS

##### PUBLICLY HELD DEBT

Aug. 31, 2012	Aug. 31, 1982	FY	15.25	100,000,000	90,500,000
Mar. 10, 2013	Mar. 10, 1983	GB	11.50	100,000,000	95,775,000
Apr. 25, 2013	Apr. 25, 1983	GD	11.75	100,000,000	97,215,000
TOTAL PAYABLE IN NEW YORK IN U.S. DOLLARS .....					283,490,000
CANADIAN DOLLAR EQUIVALENT AT MARCH 31, 1997 EXCHANGE RATE of \$1.38430 .....					392,435,207

(6)

TOTAL DEBT INCURRED BY PROVINCE FOR ONTARIO HYDRO ..... 3,140,181,207

TOTAL DEBT INCURRED FOR PROVINCIAL PURPOSES  
AND ONTARIO HYDRO ..... 101,612,839,075

## II Schedule of Outstanding Debt Incurred by the Province of Ontario — Continued

### References:

- (1) Non-callable.
- (2) Liability to Canada Mortgage and Housing Corporation assumed by the Ministry of Finance upon the dissolution of Ontario Land Corporation.
- (3) Callable, in whole but not in part, on October 17 in each year from 1999 to 2007 at par. Interest payable is 6.75% for the first 4 years, 7.25% in years five and six, 8% in year seven, 8.25% in year eight, 8.75% in year nine, 9% in year ten, 9.25% in year eleven, and 9.375% in year twelve.
- (4) Interest payable is 6 month Yen LIBOR.
- (5) Securities sold to the Canada Pension Plan Investment Fund are payable 20 years after their respective dates of issue, are not negotiable and not transferable or assignable but are redeemable, in whole or in part, before maturity at the option of the Minister of Finance of Canada, on six months' prior notice, when the Minister deems it necessary in order to meet the requirements of the Canada Pension Plan. In the case of redemption before maturity, the Ontario Securities are to be redeemed in the order in which they were issued and the amount of Ontario Securities to be redeemed at any time shall be proportionate to the amount of all securities then held to the credit of the said fund represented by Ontario Securities.
- (6) Callable 15-25 years after date of issue at various declining premiums and thereafter at par.
- (7) The terms of these debentures require that equal payments to be made each year until their maturity. Each payment consists of blended principal and interest.
- (8) The terms of these debentures require that equal payments be made each year for a period, after which, the payments decline and remain constant for another period. The decline in payments may happen more than once during the term of the debenture. Each payment consists of blended principal and interest.
- (9) The Province entered into currency exchange agreements which effectively converted these U.S. Dollar obligations to Canadian Dollar obligations at an exchange rate of 1.31748. In addition, the Province entered into interest rate agreements which effectively converted the interest obligation on this debt to a fixed rate of 8.40% and 6.43% on \$9,662 million and USD 500 million respectively, and floating Canadian BA rate on \$2,723 million; offset in part by the receipt of floating U.S. LIBOR rate on USD 500 million.
- (10) The Province entered into currency exchange agreements which effectively converted all but USD 225 million of these U.S. Dollar obligations to Canadian Dollar obligations at an exchange rate of 1.27208. In addition, the Province entered into interest rate agreements which effectively converted the interest obligation on all of this debt to a fixed rate of 8.08%.
- (11) The Province entered into currency exchange agreements which effectively converted these U.S. Dollar obligations to Canadian Dollar obligations at an exchange rate of 1.19801. In addition, the Province entered into interest rate agreements which effectively converted the interest obligation on this debt to a fixed rate of 9.07% and 6.07% on \$2,676 million and USD 70 million, respectively and floating Canadian BA rate on \$40 million; offset in part by the receipt of floating US LIBOR rate on USD 70 million.
- (12) The Province entered into currency exchange agreements which effectively converted these Pounds Sterling obligations to Canadian Dollar obligations at an exchange rate of 2.11712. In addition, the Province entered into interest rate agreements which effectively converted the interest obligation on this debt to a fixed rate of 8.35%.
- (13) The Province entered into currency exchange agreements which effectively converted these Swiss Franc obligations to Canadian Dollar obligations at an exchange rate of 1.10691. In addition, the Province entered into interest rate agreements which effectively converted the interest obligation on this debt to a fixed rate of 8.79% on \$436 million and floating Canadian BA rate on \$283 million.
- (14) The Province entered into currency exchange agreements which effectively converted substantially all of these Japanese Yen obligations to Canadian Dollar obligations at an exchange rate of 0.01304. In addition, the Province entered into interest rate agreements which effectively converted the interest obligation on this debt to a fixed rate of 8.73% on \$1,550 million, and floating Canadian BA rate and Yen LIBOR rate on \$199 million and JPY 27 billion, respectively; offset in part by the receipt of floating U.S. LIBOR rate on USD 259 million.

## II Schedule of Outstanding Debt Incurred by the Province of Ontario — Continued

- (15) The Province entered into currency exchange agreements which effectively converted substantially all of these Japanese Yen obligations to Canadian Dollar obligations at an exchange rate of 0.01466. In addition, the Province entered into interest rate agreements which effectively converted the interest obligation on this debt to a fixed rate of 8.74% on \$2,830 million, and floating Canadian BA rate and Yen LIBOR rate on \$149 million and JPY 45 billion, respectively; offset in part by the receipt of floating U.S. LIBOR rate on USD 243 million.
- (16) The Province entered into currency exchange agreements which effectively converted these Deutsche Mark obligations to Canadian Dollar obligations at an exchange rate of 0.89250. In addition, the Province entered into interest rate agreements which effectively converted the interest obligation on this debt to a fixed rate of 8.00% on \$1,761 million and floating Canadian BA rate on \$470 million.
- (17) The Province entered into currency exchange agreements which effectively converted these Netherlands Guilder obligations to Canadian Dollar obligations at an exchange rate of 0.77542. In addition, the Province entered into interest rate agreements which effectively converted the interest obligation on this debt to a fixed rate of 8.44%.
- (18) The Province entered into currency exchange agreements which effectively converted these Australian Dollar obligations to Canadian Dollar obligations at an exchange rate of 0.95643. In addition, the Province entered into interest rate agreements which effectively converted the interest obligation on this debt to a fixed rate of 6.55% on \$564 million and floating Canadian BA rate on \$205 million.
- (19) Retractable, in whole or in part, on February 8, 2007, at the holder's option, provided that the notice of retraction is made during the period from July 15, 2006 to January 15, 2007 inclusive. Such election is irrevocable.
- (20) Retractable, in whole or in part, on March 1, 2010, at the holder's option, provided that the notice of retraction is made during the period from March 1, 1995 to February 12, 2010 inclusive. Such election is irrevocable.
- (21) Exchangeable at any time, in whole or in part, at the holder's option, for an equivalent principal amount of Series JG 9.50% bonds due January 12, 2035.
- (22) Callable in full, and not in part, on July 27, 2001, at par.
- (23) The terms of these debentures require that the principal be repaid in twelve equal monthly payments in the year preceding the date of maturity.
- (24) The terms of these debentures require unequal payments, consisting of both principal and interest, to be made at predetermined irregular intervals. At January 10, 2035, the principal to be repaid on each debenture will be \$2.3 million.
- (25) The Ontario Housing Corporation borrows funds from private sector to finance investments in real property. These mortgages are expected to be repaid over a period of 35 years and are normally renewed for a term of 3 to 5 years. Interest payable at various rates based on individual agreements - weighted average rate of 7.5%.
- (26) On March 4, 1994 substantially all of the locomotives and bi-level cars of the Toronto Area Transit Authority ("TATO") were sold for USD 311,867 and immediately repurchased from the same counterparty at the same price under conditional sales contracts maturing on July 1, 2006. The transaction has been accounted for as a collateralized financing. The debt is collateralized by the locomotives and bi-level cars. TATO retains the right to use the locomotives and bi-level cars, and is liable for maintenance and all other associated obligations. TATO cannot lease or sell the locomotives and bi-level cars without the prior written consent of the counterparty to the debt obligation. In addition, TATO is liable for any costs which reduce the counterparty's return on the financing.
- (27) Interest payable is 6-month Yen LIBOR + .2%, with a minimum rate of 3.0% and a maximum rate of 4.5%.
- (28) Interest payable is 12 month Yen LIBOR + .3%.
- (29) Redeemable at the option of the holder on March 1 or September 1 or upon the death of the beneficial owner. The bonds are transferrable, provided the new beneficial owner meets the eligibility requirements. The Minister of Finance may reset the interest rate from time to time prior to maturity. The initial interest rate on these Bonds is 8.0%. The minimum interest rate payable is 8.0% and 7.0% in year one and years 2 - 3 respectively. Effective March 1, 1996 the interest rate was set at 7.0% and remained at 7.0% on March 31, 1997.

## II Schedule of Outstanding Debt Incurred by the Province of Ontario — Continued

- (30) Redeemable at the option of the holder on March 1 or September 1 or upon the death of the beneficial owner. The bonds are transferrable, provided the new beneficial owner meets the eligibility requirements. The bonds may be exchanged anytime, except the period February 14 to March 1 annually, for an equivalent principal amount of Annual Interest Bonds. The Minister of Finance may reset the interest rate from time to time prior to maturity. The initial interest rate on these Bonds is 8.0%. The minimum interest rate payable is 8.0% and 7.0% in year one and years 2-3 respectively. Effective March 31, 1996 the interest rate was set at 7.0% and remained at 7.0% on March 31, 1997.
- (31) Interest payable is 4.5% to May 27, 1996, then 1.0% + 5 times (YEN 7-year Swap rate minus YEN 3-month LIBOR minus 1.28%) to maturity, with a minimum of 1.0%.
- (32) Interest is payable in Australian Dollars, based on a notional principal of AUD 66 million at a rate of 3.9%.
- (33) Interest is payable in Australian Dollars, based on a notional principal of AUD 27.2 million at a rate of 6.0%.
- (34) Interest payable is 3 month U.S. LIBOR rate.
- (35) Interest payable is 6 month U.S. LIBOR rate + .0475%.
- (36) Interest is payable in Australian Dollars, based on a notional principal of AUD 138.2 million at a rate of 5.65 %.
- (37) Interest is payable in Australian Dollars, based on a notional principal of AUD 149.3 million at a rate of 5.50%.
- (38) The original debentures payable to OMERS were replaced effective December 31, 1995, with debentures payable to OMERS and to Colleges of Applied Arts and Technology Pension Plan, in the amounts of \$741.6 million and \$90.9 million, respectively. The terms and conditions remain the same as those of the original debentures.
- (39) The terms of these debentures set the par value of these debentures at \$300 million, the proceeds at issuance at \$255 million and the obligation to be repaid at maturity at \$241.8 million.
- (40) No interest is payable in the first five years, thereafter interest is payable monthly at an annual interest rate of 17.25%.
- (41) The terms of these debentures require unequal payments, consisting of both principal and interest, to be made at predetermined irregular intervals with the final payment on January 10, 2045. The total principal and interest to be paid over the life of the debenture is \$1,325 million in total.
- (42) The terms of these debentures require no interest payments until maturity, at which time a single payment, comprised of both principal and interest, will be made in the amount of \$700 million.
- (43) The Province entered into currency exchange agreements which effectively converted all but USD 47 million of these US Dollar obligations to Canadian Dollar Obligations at an exchange rate of 1.3745.
- (44) Callable, in whole but not in part, at par on October 27, 1998.
- (45) Callable, in whole but not in part, at par on October 12, 2000.
- (46) Interest payable is 3 month Deutsche Mark LIBOR + .0625%.
- (47) Exchangeable, in whole but not in part, on February 4, 1998, at the holder's option, for an equivalent principal amount of Series KQ 7.375% bonds due February 4, 2027.
- (48) The terms of these debentures require that a special one-time interest payment in the amount of \$40.5 million be made at maturity. Interest payable is 4.35% for the first seven years, thereafter interest payable is 7.04%. The debentures are retractable, in whole but not in part, on December 2, 2003, at the holder's option, provided that the notice of retraction is made during the period from October 31, 2003 to November 12, 2003 inclusive. Such election is irrevocable and if invoked the one-time interest payment at maturity is forfeited.
- (49) These debentures have two call options exercisable on August 6, 1997. Each of Option 1 and Option 2 permits the purchase of \$75 million 30 year debentures with a coupon interest rate of 8%, at a strike price of 108.00 and 109.50 respectively. One, both or neither of the options may be exercised but may not be traded separately.
- (50) These debentures have a non-detachable call option exercisable, in whole or in part, on the following dates: May 5, 1997, August 5, 1997, November 3, 1997, and February 3, 1998. The option permits the purchase of up to \$150 million, in total, additional debentures of this issue.

## II Schedule of Outstanding Debt Incurred by the Province of Ontario - concluded

- (51) These debentures have a non-detachable call option exercisable, in whole or in part, on the following dates: May 5, 1997, August 5, 1997, November 3, 1997, and February 3, 1998. The option permits the purchase of up to \$100 million, in total, additional debentures of this issue.
- (52) The terms of these debentures permit the principal be repaid in either USD 44.6 million or AUD 55.0 million, at the Province's option.
- (53) Interest payable is 6-month Yen LIBOR + 0.3%, with a maximum rate of 6.8%. Callable, in whole but not in part, at par on January 10, 2000 and every six months thereafter.
- (54) Interest is payable in Australian Dollars, based on a notional principal of AUD 52.5 million at a rate of 3.10%.
- (55) Interest is payable in U.S. Dollars, based on a notional principal of USD 120.8 million at a rate of 3.25%.
- (56) Interest payable is 3 month Yen LIBOR rate + 0.100%.
- (57) Interest is payable in Australian Dollars, based on a notional principal of AUD 121.1 million at a rate of 4.28%.
- (58) The terms of these debentures are: proceeds received at issuance were JPY 7 billion, the obligation to be repaid is AUD 79,293,060 and interest is payable in Japanese Yen based on a notional principal of JPY 7 billion at a rate of 5.72%.
- (59) The terms of these debentures are: proceeds received at issuance were JPY 30 billion, the obligation to be repaid is AUD 333,333,333 and interest is payable in Japanese Yen based on a notional principal of JPY 30 billion at a rate of 5.20%.
- (60) The terms of these debentures are: proceeds received at issuance were JPY 25 billion, the obligation to be repaid is AUD 296,278,739 and interest is payable in Japanese Yen based on a notional principal of JPY 25 billion at a rate of 6.00%.
- (61) Redeemable at the option of the holder on June 12 or December 21 or upon the death of the beneficial owner. The bonds are transferable, provided the new beneficial owner meets eligibility requirements. Annual Interest Bonds of each type may be exchanged anytime on or before June 6, 1997 for an equivalent principal amount of Compound Interest Bonds of the same type. Compound Interest Bonds of each type may be exchanged anytime, except during the period of June 6 to June 21 annually, for an equivalent principal amount of Annual Interest Bonds of the same type. The Minister of Finance may reset the interest rate from time to time prior to maturity.
- (62) The interest rate was set at 4.5% for the first year. The minimum interest payable is 5.75% in the second year, 6.25% in the third year, 7.25% in the fourth year, and 9.00% in the final year.
- (63) The Minister of Finance may reset the interest rate every six months. The initial interest rate was set at 4.75%. Effective December 21, 1996 the interest rate was set at 3.25%.
- (64) The Province entered into currency exchange agreements which effectively converted these Australian Dollar obligations to Canadian Dollar obligations at an exchange rate of 1.0685. In addition, the Province entered into interest rate agreements which effectively converted the interest obligation on this debt to a floating Canadian BA rate.
- (65) The Province entered into currency exchange agreements which effectively converted these French Franc obligations to Canadian Dollar obligations at an exchange rate of 0.26581. In addition, the Province entered into interest rate agreements which effectively converted the interest obligation on this debt to a fixed rate of 6.59%.
- (66) The Province entered into currency exchange agreements which effectively converted these Norwegian Kroner obligations to Canadian Dollar obligations at an exchange rate of 0.21235. In addition, the Province entered into interest rate agreements which effectively converted the interest obligation on this debt to a floating Canadian BA rate.
- (67) The Province entered into currency exchange agreements which effectively converted these New Zealand Dollar obligations to Canadian Dollar obligations at an exchange rate of 0.95260. In addition, the Province entered into interest rate agreements which effectively converted the interest obligation on this debt to a floating Canadian BA rate.

## Paper E

### The R&D Opportunity: Cutting Taxes and Creating Jobs

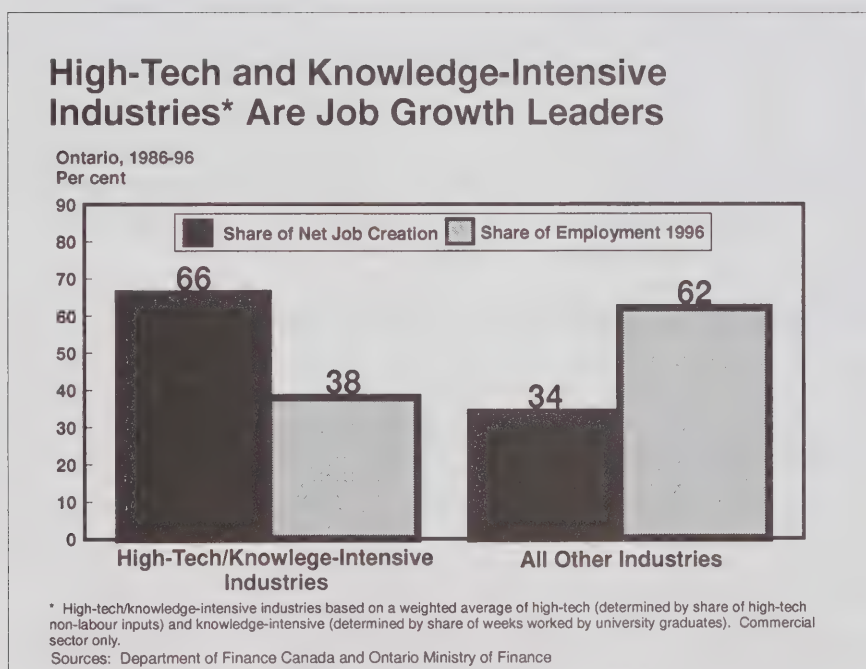


## Innovation, Economic Growth and Job Creation

This paper is about jobs — creating new and better jobs in the future and ensuring that the province keeps the jobs it now has. Successful private-sector companies are the engine of job creation in the Ontario economy. The Government's plan is to create a positive business climate to unleash the power of private-sector job creation — by cutting taxes, by investing taxpayers' money more wisely, and by removing barriers to private-sector growth.

The stakes are high. Innovative economies, like Ontario's, that provide fertile ground for knowledge-based companies to grow can look forward to good jobs and a high standard of living in the future. Those that are not up to the challenge will see high unemployment and a declining standard of living.

- ◆ The job creation payoffs from innovation and research and development are substantial. During the last 10 years, two of every three new jobs in Ontario were created in knowledge and technology-based industries.



Innovation is the key that unlocks the door to knowledge-based growth and job creation. Just as it is necessary to invest in people and in physical capital for the economy to grow and create jobs, so also is it necessary to invest in innovation. Research and development – R&D – is an investment in innovation, in economic growth and in job creation. In other words, R&D is an investment in Ontario's future.

The Province's plan — cut taxes, invest wisely, and rely on the private sector for job creation and economic growth — will work for R&D just as it is working in other areas. Supporting R&D through tax cuts is one important way of creating good, long-lasting jobs. Encouraging the province's leading companies, large and small, to partner with Ontario's finest universities is another effective way to build the knowledge that will enable our companies to compete on a world scale and create jobs.

The Government will contribute \$500 million to an R&D Challenge Fund that will result in a total investment of \$3 billion over 10 years. This investment will promote greater partnership and collaboration between the private sector and Ontario universities and support research excellence in our universities. In addition, the Government is introducing seven new tax cuts to support private-sector investment in R&D and innovation, including a new 20 per cent refundable tax credit for business-sponsored R&D performed by universities and other post-secondary educational institutions in Ontario. These new tax measures will help support a further \$3 billion in private-sector investments over the next 10 years.

In total, these measures will help ensure that Ontario remains one of the most competitive jurisdictions in the world in which to perform R&D. Their purpose is to move the economic yardsticks ahead – to create jobs, increase productivity, and raise incomes.

### ***R&D and Innovation Key to Job Creation and Growth***

In the 21st century, the ability to create and apply commercially valuable knowledge will separate the economic leaders from the rest of the pack. Companies throughout the world's advanced economies know this and are seeking ways to use knowledge to create competitive advantages.

R&D is an investment in innovation — the development and application of new knowledge to produce new products and services and to find new, more productive ways of doing things. Innovation is the cornerstone on which a high-income, job-creating economy is built.

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R&D influences job creation and economic growth in a variety of ways:

- ◆ High R&D economies have a better chance to be in on the ground floor when new fast-growing industries that will be the job creation machines of the future are born.
- ◆ Fast-growing, innovative companies, many of which invest heavily in R&D, create a disproportionate share of new jobs.
- ◆ As new knowledge flows from one part of the economy to other parts, the productivity of capital and labour both rise. A general-purpose technology such as computing illustrates how new knowledge can ripple through the economy with profound effects on both what is produced and how it is produced.
- ◆ Even knowledge that is protected by intellectual property rights can benefit other companies through “demonstration effects” where companies learn by observing the products and services offered by their competitors.
- ◆ The skills and knowledge acquired through R&D diffuse through the economy as people change jobs and take their expertise with them.
- ◆ R&D capabilities make companies more proficient in adopting and commercializing new technologies.
- ◆ Success breeds success. Clusters of high-technology companies and institutions such as those in the Kitchener-Waterloo-Cambridge-Guelph Technology Triangle or the Ottawa area attract new investment and generate new “spin-off” companies.
- ◆ R&D-intensive sectors generate approximately 22 per cent of the province’s merchandise exports. If autos are excluded, the export share of R&D-intensive industries rises to close to 40 per cent.

All of this means that the economy-wide returns from R&D are much greater than the returns to any individual firm that performs R&D. Estimates of the total economic return to R&D typically range from 50 to more than 100 per cent.

## **Ontario's High-Technology Firms Create Jobs**

R&D-intensive companies in Ontario are turning successful innovation into jobs. Ontario's high-quality technological infrastructure, including its educated workforce, provides a strong foundation for continued growth.

### ***Newbridge Networks Experiences Record R&D, Sales and Employment Growth***

Newbridge Networks has become one of Canada's top corporate R&D performers and a world leader in the design and manufacture of networking products and systems for multimedia communications. Innovation at Newbridge has resulted in the creation of seven new Ontario-based advanced-technology affiliates. Last year, the company increased its Ontario employment by about 20 per cent. Today, Newbridge employs about 5,700 people at its Kanata, Ontario headquarters and worldwide facilities.

### ***IBM Canada's Success Results in Ontario Jobs***

IBM Canada is one of Canada's top corporate R&D performers and a leading provider of advanced information technologies, including computer systems, software, networking systems, storage devices and microelectronics. Last year, growth in demand for computer systems and services and networking systems caused the company to increase its full-time workforce by almost 2,800 positions. More than half of these new jobs were in Ontario. Today, IBM Canada and its subsidiaries employ more than 13,000 people at its Markham headquarters, Toronto research facility and other locations across Canada.

### ***Com Dev Increases Ontario Employment***

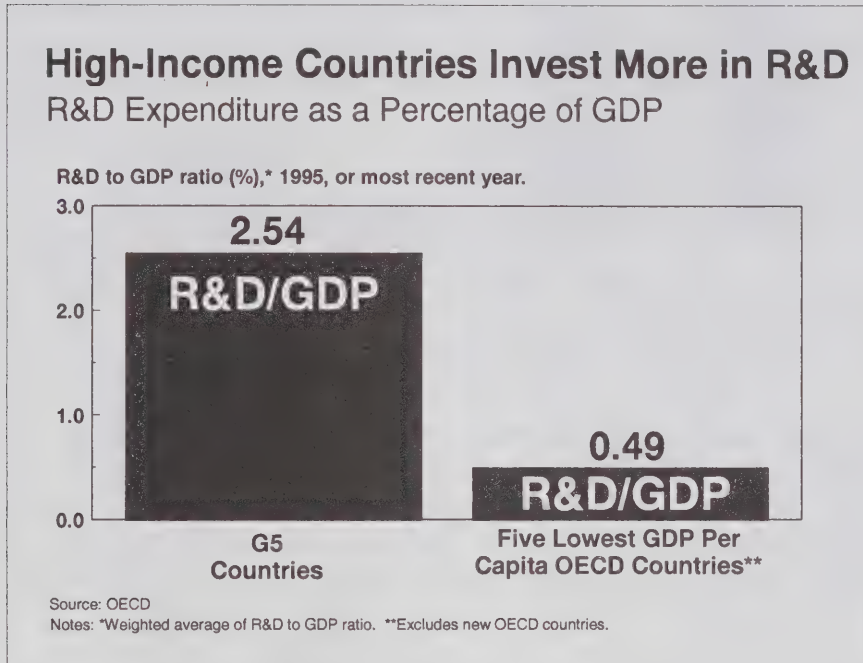
Com Dev is Canada's largest exporter of communications satellite equipment, including satellite multiplexer and switching networks. The company also produces scientific instruments and subsystems that play a crucial role in monitoring changes in the earth's environment. Last year, the company's Ontario employment increased by about 20 per cent. Today, Com Dev employs about 1,300 people at its Cambridge, Ontario headquarters and national and international facilities.

### ***Hummingbird Achieves Strong Sales and Employment Growth***

Hummingbird Communications develops software that provides personal computers with easy access to information and applications running on mini and mainframe host computers. Last year, strong growth caused Hummingbird to increase its Ontario employment by more than 60 per cent. Today, Hummingbird employs more than 350 people at its North York headquarters and international locations.

## ***R&D Linked to Economic Success***

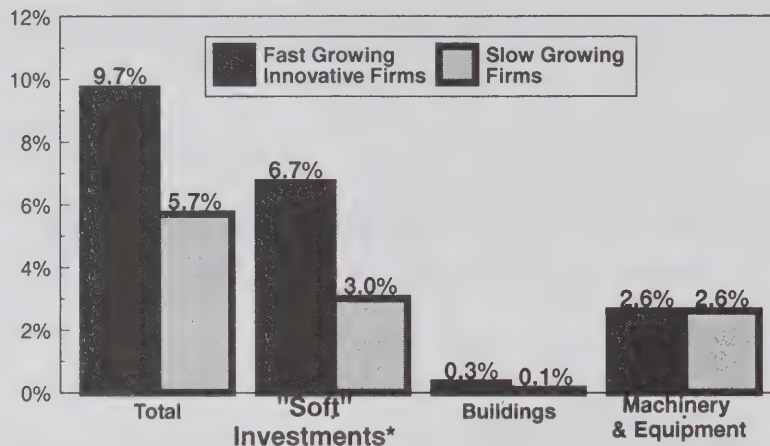
Successful countries generally invest more in research and development than others. The United States, Japan, Germany, France and the United Kingdom, the high-income G5 countries, invest an average of more than five times as much of their economic resources in R&D as Turkey, Mexico, Greece, Portugal and Spain, the five lowest per capita income countries in the OECD.



Successful firms also invest more in what are referred to as “soft” assets such as R&D and intellectual capital. The fastest growing firms generally invest more than twice as much in R&D, marketing and training as firms that grow more slowly, even though they invest about the same proportion of their sales in physical assets. Sixteen of Ontario’s largest R&D-performing companies increased their R&D spending by more than 100 per cent between 1989 and 1995.

## Fast Growing and Innovative Firms Invest More in R&D and Other Soft Assets

Investment as a share of sales



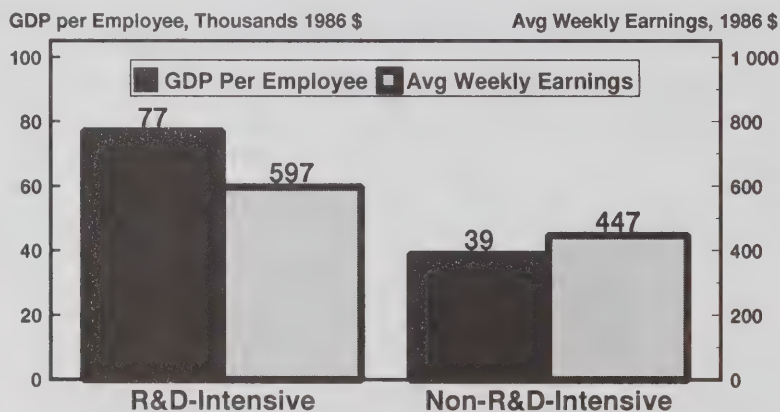
\* Includes R&D, marketing and training

Sources: Ontario Ministry of Finance and Statistics Canada

R&D-intensive industries are highly productive. Their productivity rose from about \$45,500 per employee in 1987 to almost \$77,000 per employee in 1995 (in constant 1986 dollars), while productivity in non-R&D-intensive industries stagnated. As a result of their higher productivity, average weekly earnings in R&D-intensive industries are higher than average.

## Productivity and Earnings Higher in R&D Intensive Sectors

All Employees, 1995



Sources: Statistics Canada and Ontario Ministry of Finance.

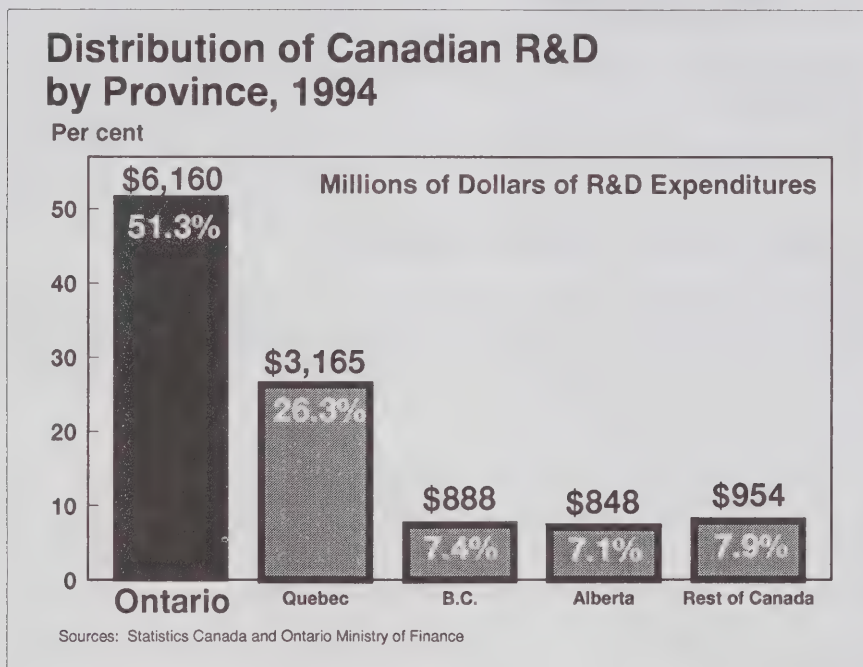
Note: R&D-intensive sectors have an industry R&D to GDP ratio that is at least twice as large as Ontario's overall business R&D to GDP ratio.

## Ontario's R&D Strengths

The province has a strong R&D foundation on which to build. It is the largest R&D performer in Canada and the leader in technology adoption. It is also a leader in key R&D industries and home to most of Canada's largest R&D companies.

### *Canadian Leader in R&D*

Ontario has the most R&D-intensive economy in Canada, with a 2.0 per cent ratio of R&D to GDP. In 1994, approximately \$6.2 billion of R&D was carried out in Ontario, more than in the rest of Canada combined.

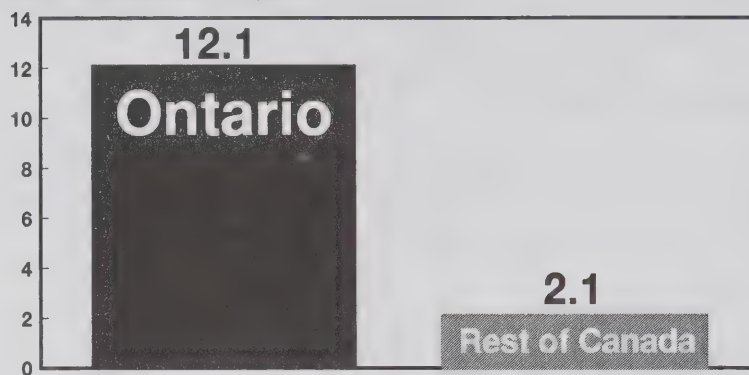


### *Leader in Technology Adoption*

Ontario companies also lead Canada in their ability to use new technology. Manufacturing companies in Ontario have the highest rate of technology adoption in Canada and are the most sophisticated users of technology. The proportion of companies using six or more different types of advanced technologies is almost six times higher in Ontario than in other provinces.

### Use of Multiple Advanced Technologies\* Manufacturing Sector, 1993

Per cent of Establishment Shipments



\*Use of at least one advanced technology from each of the following groups: design & engineering, fabrication & assembly, automated handling systems, inspection & communication, manufacturing information systems, and integration & control.

Source: Statistics Canada

### ***Leading R&D Industries and Companies***

Ontario's primary R&D strengths lie in seven industries that account for 64 per cent of business R&D spending: telecommunications, financial services, aircraft, business machines, pharmaceuticals, computing, and engineering and scientific services.

Ontario is home to many of Canada's leading R&D-performing companies, including Nortel, the largest R&D performer in Canada. The presence of knowledge-based companies often leads to the creation of more knowledge-based companies. Two of Ontario's leading R&D companies, Newbridge Networks and Corel Systems, are third generation spin-offs from Nortel.

### Ontario's Top Seven R&D Performing Sectors, 1989-94

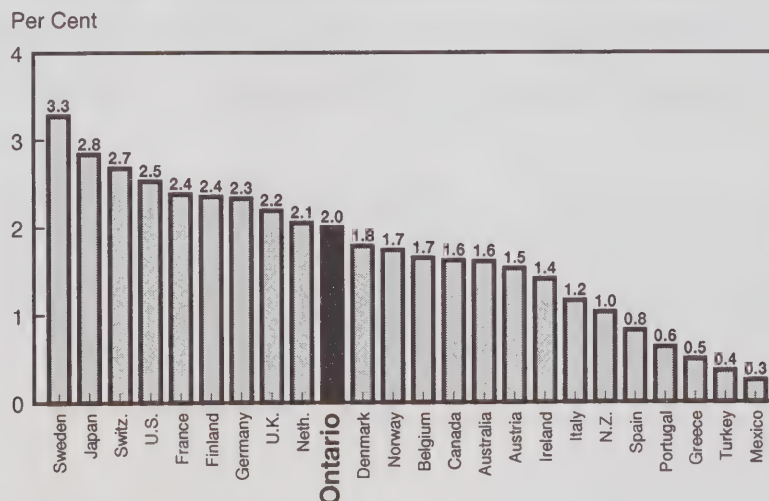
Industry	1994 Industrial R&D Spending (\$ Millions)	1994 Share of Canada R&D (Per cent)	Ontario Growth 1989-94 (Per cent)
<b>TOP SEVEN</b>	<b>2,503</b>	<b>64</b>	<b>58</b>
Telecommunications Equipment	994	90	60
Financial Services	385	83	148
Aircraft & Parts	290	49	66
Business Machines	271	83	10
Pharmaceuticals & Medicine	197	50	121
Computer & Related Services	188	48	11
Engineering & Scientific Services	178	29	39
<b>All Industries</b>	<b>3,905</b>	<b>56</b>	<b>42</b>

Sources: Statistics Canada and Ontario Ministry of Finance

### Ontario in OECD Top Ten

Ontario leads Canada in R&D performance. In international terms, the province would rank tenth among 26 OECD countries in R&D spending as a per cent of GDP.

### R&D as a Percentage of GDP, 1994\*



Sources: Statistics Canada and OECD  
Note: \*Or earlier year for some countries.

## **Taking Action: A New Approach to R&D and Innovation**

Ontario has a solid basis on which to build new competitive advantages through R&D – competitive industries, leading R&D companies, a highly skilled workforce, and a positive business climate. The province's R&D performance is well ahead of the Canadian average and its innovative capabilities are strong.

The Province's innovation and R&D policies are designed to create a hospitable climate for innovation by companies, universities and other research institutions, leading to private-sector growth and job creation. However, new policies are needed to ensure that Ontario's economy continues to become more innovative and knowledge-intensive. The Government is taking action to build on the province's strengths and to ensure that Ontario has an innovative economy able to succeed in global competition.

### ***Building Business-University Partnerships: A Key to Knowledge-based Industrial Clusters***

North America has a number of geographic concentrations of high-technology companies, universities and other research institutions. Silicon Valley, the most famous example of a cluster of companies and research institutions, contains 6,000 high-tech companies with total sales of over \$200 billion.

It is not enough to create the general conditions in which R&D can flourish. To realize the potential economic payoff from R&D in Ontario, businesses and universities need to work together to produce the critical mass necessary to achieve research excellence and competitive advantage in technology and knowledge-intensive industries. Therefore, the Government's major new policy direction in R&D is to provide greatly increased incentives for businesses and universities to build productive and mutually beneficial partnerships.

Ontario's new R&D measures — particularly the R&D Challenge Fund and the Ontario Business-Research Institute Tax Credit — are designed to encourage the kind of mutually advantageous cooperation between business and universities that helps to create the Silicon Valleys of the world and the prosperity they bring.

## **Businesses and Universities Working Together To Create Jobs and Improve Competitiveness**

Businesses are increasingly looking to universities to help keep them at the forefront of innovation. University-industry collaboration on advanced research results in new products, highly-skilled workers and a climate of innovation that attracts knowledge-intensive firms.

### **Dofasco Inc. - McMaster University**

Dofasco and the Natural Sciences and Engineering Research Council are co-funding a research chair in process metallurgy at McMaster University to explore ways of reducing the cost of producing high-quality steel.

### **Nortel Announces Institute for Telecommunications at University of Toronto**

Nortel has announced the creation of a Nortel Institute for Telecommunications at the University of Toronto. The Institute will fund programs that include a masters degree in telecommunications, a graduate scholarship for telecommunications, a chair in network architecture, a chair in emerging technology and an applied physics laboratory. Nortel is also supporting a new School of Information Technology and Engineering at the University of Ottawa.

### **Chrysler Canada and University of Windsor Open New Automotive Research Centre**

In 1996, Chrysler Canada and the University of Windsor opened a new Automotive Research and Development Centre in Windsor. The first co-operative automotive research facility of its kind in Canada, the Centre will build on Chrysler's expertise in alternative fuels and pursue niche research in new automotive product technology. It will also provide co-operative automotive product research through research chairs in Automotive Design, Alternative Fuels and Ultrasonic Microscopy endowed by Chrysler Canada.

### **Collaboration by R-Theta Inc. and University of Waterloo Results in Sales and Job Growth**

Research collaboration between R-Theta Inc., the University of Waterloo and the Manufacturing Research Corporation of Ontario, an Ontario Centre of Excellence, has resulted in sales and employment growth at the Ontario company. R-Theta, based in Mississauga, has seen a fourfold increase in sales and a fivefold increase in employment. The company now employs more than 100 people in Ontario.

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### ***Supporting Leading-Edge Research Institutions***

An excellent university research system is one of the building blocks for successful innovation in the rest of the economy. The university research system links to private-sector innovation in a variety of ways — through research carried out for private-sector companies, by providing a research environment that attracts top-quality faculty and graduate students, by making discoveries and developing applications of research with commercial value, and by providing a stream of highly skilled people for companies to hire.

However, from a business perspective, university research is a high-risk proposition. A recent study by William M. Mercer Limited estimated that only about one in 6,000 apparent discoveries eventually had appreciable commercial value. These odds could be lowered if the province's universities had even more world-class researchers, if more funds were available for their research, and if more of this research captured the interest of the private-sector from the outset.

The R&D Challenge Fund and the Ontario Business-Research Institute Tax Credit will provide incentives for businesses to invest in the work of researchers of international calibre and for universities to seek private-sector partners. The quality of human capital, represented partly by the presence of world-class researchers, is a key factor determining the location of corporate R&D investment. These kinds of incentives can lower the cost and the risk of investment in R&D for the private-sector, and give companies early access to the results of R&D.

### ***Developing Highly Skilled People for Knowledge and Technology Businesses***

The ability to generate and apply new knowledge is a scarce resource. Those jurisdictions that are able to provide the highly skilled people needed to compete in knowledge- and technology-based industries will attract new investment.

Ontario is already very competitive in this respect. In 1994, 46.5 per cent of Ontarians aged 25-64 had completed post-secondary education, the highest percentage in the OECD.

The new R&D Challenge Fund and the Ontario Business-Research Institute Tax Credit will add to Ontario's attractiveness for world-class researchers and R&D investments. In doing so, they will also improve the quality of teaching in participating universities and other post-secondary educational institutions in Ontario.

Ontario's personal income tax cut will also help to attract and retain world-class researchers. Changes to Ontario's Co-operative Education Tax Credit will provide additional incentives to businesses hiring post-

secondary students enrolled in leading-edge technology programs. Ontario is also taking steps to ensure that taxpayers' investments in educating our young people translate into jobs. Businesses will be eligible for a 10 per cent tax credit for hiring an unemployed graduate from a post-secondary educational institution in Ontario. This will help provide our educated youth with on-the-job training and will foster a better trained and educated workforce.

### ***Financing R&D and Innovation***

The availability of external financing for small, knowledge-based companies in Ontario is critical to their growth. Three key trends are supporting an improvement in access to capital for these companies.

First, private-sector financial institutions are developing specialized funding vehicles to meet the needs of knowledge-based industries. The five major banks have established over 30 specialized lending units for knowledge-based companies in Ontario.

Second, more venture capital is becoming available in Ontario. In 1996, venture capital companies invested \$320 million in technology-based companies, up from \$156 million in 1995. Most of this increase was accounted for by the rapid growth in venture capital investments in technology-based sectors by Labour-Sponsored Investment Funds:

- ◆ LSIFs accounted for 53 per cent of venture capital invested in technology-based companies in Ontario in 1996, up from 34 per cent in 1995.
- ◆ LSIFs allocated 71 per cent of their total 1996 investment to technology-based companies, up from 64 per cent in 1995.

The 1997 Budget requires LSIFs to direct more of their investments to small business.

Furthermore, Ontario's small business investment tax credit provides incentives to financial institutions to provide capital to start-ups and growing knowledge-based companies in Ontario. As a result of the 1997 Budget, financial institutions will now be able to claim a 75 per cent tax credit for equity investments of \$50,000 and under in small businesses.

Third, new links between financial institutions and Ontario universities are emerging to help commercialize promising research. For example:

- ◆ The Royal Bank of Canada and Quorum Growth Inc., a venture capital company, have formed the Technology Launch Initiative to work with universities and research laboratories to identify and accelerate the commercialization of promising new Canadian technologies.

- ◆ The Canadian Medical Discoveries Fund has established University Medical Discoveries to develop and commercialize early-stage biomedical research from Canadian universities, hospitals and research institutes.
- ◆ The University of Guelph has set up a publicly listed technology management firm, Guard Inc., to convert the inventions resulting from university research into new high-technology business enterprises.

Commercialization activities have already proven beneficial to both the individual universities and the Ontario economy as a whole. The University of Toronto earned \$3.1 million of royalties in 1995-96. To encourage further commercialization of university research, the Community Small Business Investment Funds announced in the 1997 Budget can be sponsored by universities or groups of universities and used to more rapidly commercialize university-generated innovations.

### ***Fostering Technology Adoption and Commercialization***

The tax system is also designed to encourage the adoption and commercialization of new technology. As a result of the 1997 Budget, Ontario will now allow corporations to deduct 100 per cent of the acquisition costs of intellectual property that is used in their active business. To qualify, the intellectual property must be used exclusively in Ontario by the firm to implement an innovation or invention. Simply buying the rights to sell the product will not be sufficient to claim the Ontario New Technology Tax Incentive.

To enhance technology adoption, Ontario will no longer apply a tax on firms that acquire new technology from foreign parent corporations. This tax of 5 per cent on technology royalty payments acted as a barrier to the adoption of new technology in Ontario.

### ***Supporting Innovative Growth Firms***

A relatively small number of firms are major job creators and contributors to economic growth. During the last economic expansion, 5 per cent of small companies were responsible for 43 per cent of all job creation by small companies in Canada, and 10 per cent of medium-sized companies were responsible for 50 per cent of all job creation in their category. A recent Statistics Canada study found that innovation is the key characteristic distinguishing the fastest growing companies from companies that grow more slowly.

The tax system in Ontario provides R&D incentives at critical stages in the innovation process to support innovative and growing firms. As a result of the 1997 Budget, equipment used by a manufacturer exclusively for a combination of R&D and manufacturing will be exempt from Retail Sales

Tax. In addition, R&D expenditures will be exempt from Ontario's capital tax. This change will help reduce the costs of acquiring new R&D equipment.

To provide innovative growth firms with the financing they need to grow and create jobs, small firms are eligible for Ontario's 10 per cent refundable tax credit for R&D performed in Ontario. For business-sponsored R&D performed by universities, small firms will be eligible for both the 10 per cent Ontario Innovation Tax Credit and the 20 per cent Ontario Business-Research Institute Tax Credit, for a total of 30 per cent for qualifying R&D expenditures in Ontario.

The Provincial reductions in personal income tax rates and the Employer Health Tax will also leave more money in the hands of small business to invest where it is needed most.

### ***Enhancing Ontario's R&D Tax Competitiveness***

The 1997 Ontario Budget introduces seven new tax measures to support R&D and innovation. These measures will boost Ontario's support for R&D and innovation by \$100 million per year, provide generous R&D tax relief for corporate-sponsored university R&D, and encourage the adoption and commercialization of new technology.

## Ontario's Current R&D Tax Incentives

Ontario currently offers two major tax incentives that benefit R&D-performing companies and innovative growth firms: the R&D Super Allowance and the Ontario Innovation Tax Credit.

### R&D Super Allowance

- ◆ The R&D Super Allowance provides additional deductions for corporate income tax purposes for qualifying R&D performed in Ontario.
- ◆ For corporations which are not Canadian-controlled private corporations, Ontario provides a 25 per cent additional deduction on qualifying R&D expenditures. For Canadian-controlled private corporations (CCPCs), Ontario provides a 35 per cent additional deduction for qualifying R&D expenditures in Ontario.
- ◆ To foster incremental R&D spending, the Super Allowance further enriches the allowed deduction. For incremental expenditures, the 25 per cent and 35 per cent additional deductions are increased by 50 per cent to 37.5 per cent and 52.5 per cent respectively. Incremental expenditures are determined by the amount that R&D expenditures in a year exceeds the average R&D expenditures over the previous three years (i.e., three-year moving average).

### Ontario Innovation Tax Credit (OITC)

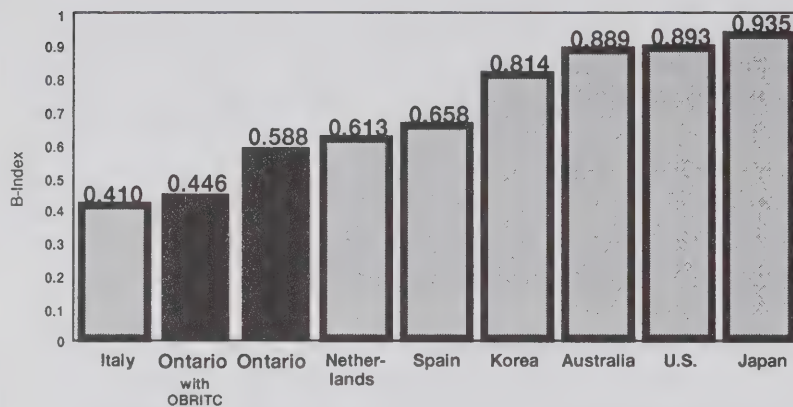
- ◆ To foster the development of growing innovative firms, Ontario provides a 10 per cent refundable tax credit for small and medium-sized CCPCs performing R&D in Ontario.
- ◆ The OITC applies to 100 per cent of qualifying current expenses such as salaries and wages, and to 40 per cent of qualifying capital expenses.
- ◆ OITC is targeted to small- and medium-sized R&D performers based on federal taxable capital and active business income thresholds:
  - Firms must have less than \$200,000 in taxable income and less than \$10 million in taxable capital to qualify.
  - OITC is phased out when firms exceed \$400,000 in taxable income or \$15 million in taxable capital.

The 1997 Budget introduces seven new tax initiatives to support R&D and innovation:

- ◆ Effective May 7, 1997, Ontario will be providing a 20 per cent refundable R&D tax credit for corporate-sponsored R&D performed in Ontario by eligible Ontario universities and other approved post-secondary educational institutions and research associations. The **Ontario Business-Research Institute Tax Credit** will also be available for small and medium-sized firms claiming the OITC.
- ◆ Effective January 1, 1998, Ontario will be providing a 15 per cent tax credit on qualifying labour costs relating to **computer animation and special effects**. This credit will help ensure that Ontario retains and builds on its world-class reputation in digital animation.
- ◆ The **co-operative education tax credit will be expanded** to include qualifying work placements from leading-edge technology programs, such as computer and information technology. The enhanced credit will be effective January 1, 1998.
- ◆ Firms **acquiring and using intellectual property to implement an innovation or invention** will be able to claim an immediate 100 per cent deduction of the qualifying acquisition costs for Ontario income and capital tax purposes.
- ◆ To foster the adoption of new technology, Ontario will be **eliminating the corporate income tax add-back rule on the acquisition of foreign technology**, such as royalty payments for computer software.
- ◆ The **retail sales tax exemption for R&D equipment used by manufacturers will be expanded** to include qualifying equipment used exclusively for a combination of manufacturing and research and development activities.
- ◆ To help growing R&D firms, corporations will be able to **deduct immediately all R&D and qualified intellectual property expenditures for capital tax purposes**.

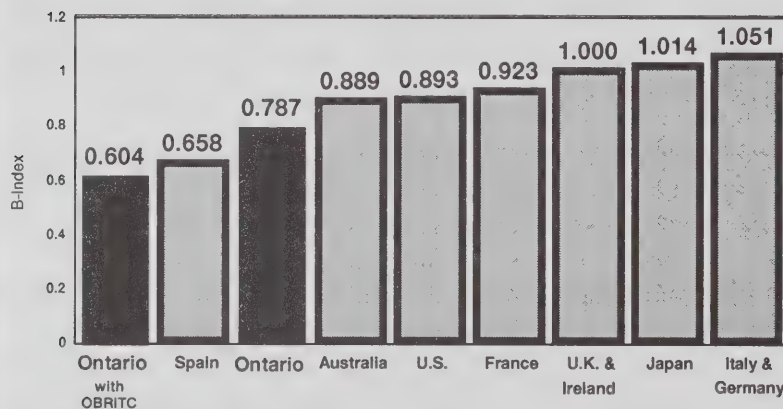
According to a 1997 study by the Conference Board of Canada, when compared to OECD countries, Ontario ranked as the second most competitive jurisdiction for R&D performed by both large and small manufacturing firms. The 1997 Budget measures for R&D and innovation will help ensure that Ontario can continue to attract global investments in R&D.

### Ontario's R&D Tax Competitiveness Compared to Selected OECD Countries for a Small Manufacturing Firm, 1995-96



Note: The more favourable the tax treatment, the lower the "B-index" (present value of before-tax income required to cover the cost of an initial R&D investment and to pay the applicable income taxes to become profitable).  
Sources: The Conference Board of Canada (1997) and Ontario Ministry of Finance.

### Ontario's R&D Tax Competitiveness Compared to Selected OECD Countries for a Large Manufacturing Firm, 1995-96



Note: The more favourable the tax treatment, the lower the "B-index" (present value of before-tax income required to cover the cost of an initial R&D investment and to pay the applicable income taxes to become profitable).  
Sources: The Conference Board of Canada (1997) and Ontario Ministry of Finance.

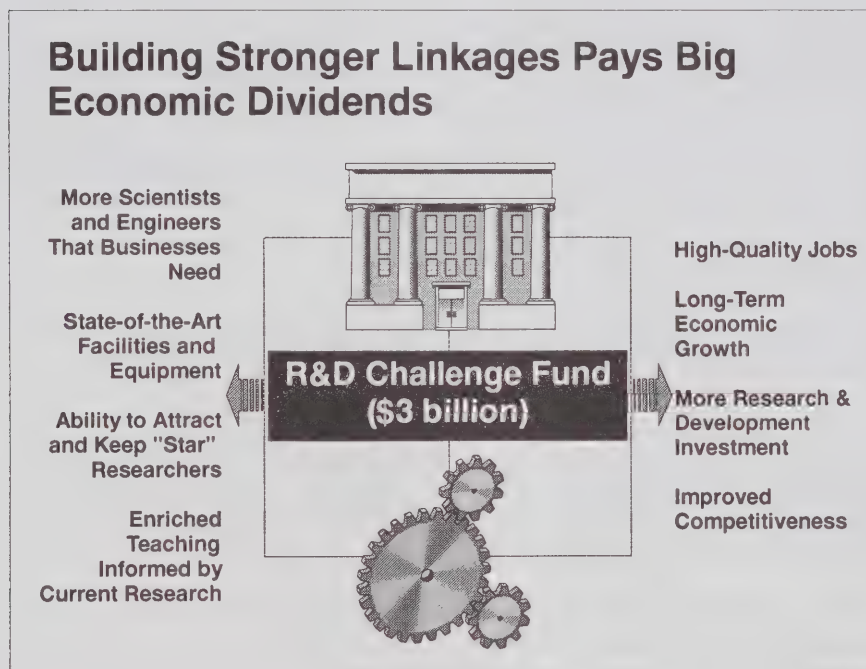
## The R&D Challenge Fund

### Overview

The Government is creating an R&D Challenge Fund to promote business-university partnerships and research excellence. The Fund will result in a total of \$3 billion of R&D at universities in the next 10 years.

The objectives of the R&D Challenge Fund are:

- ◆ to support job creation and economic growth
- ◆ to promote world-class research of interest to the private sector
- ◆ to encourage more collaboration between the private sector and research institutions.



There is a growing trend in industrialized countries for business and universities to work together more closely — and for an increasing portion of university research to reflect private-sector needs and priorities that promote job creation and economic growth. The R&D Challenge Fund will promote this trend in Ontario.

All participants will benefit. Taxpayers will benefit from more jobs and higher incomes. Universities will benefit because they will gain access to more government and private-sector funding. Students will benefit from an increasingly rich and relevant body of applied research that informs the teaching they receive and provides increased opportunity for graduate studies. Businesses will benefit because they will gain earlier access to research results; they will be better able to identify potential commercial applications of research; and they will be able to identify and hire highly qualified graduates.

### ***Flexible Strategic Focus***

The main priority of the R&D Challenge Fund will be to attract and keep world-class researchers in Ontario. The Fund will have the flexibility to provide support for whatever is needed to achieve this, including:

- ◆ leading-edge research that benefits today's growing industries and helps create the industries of the future
- ◆ state-of-the-art equipment and facilities
- ◆ incentives for gifted researchers to work in Ontario, including endowed chairs.

The Fund will have a people focus rather than a traditional project focus. Proposals from universities and other research institutions will be expected to make a clear link between the proposal and the attraction and retention of these key researchers.

All disciplines will be eligible for support from the Challenge Fund, but it is expected that the Fund will primarily focus on the fields of natural science and engineering, mathematics, health sciences, and environmental sciences.

Funding will be awarded on a competitive basis, according to a proposal's contribution to research excellence and economic growth. The evidence of its economic benefit will be its ability to attract private-sector support. A peer review process will be used to assess the quality of the research that would be supported by a proposal.

Universities, research-oriented health care facilities, and other research institutions will be eligible to receive support from the Fund. A Board will be established to make funding decisions. The Board will be made up of business leaders, leading researchers, and government representatives.

The Challenge Fund will support both longer-term discovery research of interest to the private sector and shorter-term research with more immediate industrial applications. In both cases, the research institution or the principal investigator will own the intellectual property rights arising from the research. For research that is expected to yield immediate industrial applications, the research institution or the principal investigator may negotiate with their corporate partners rights of access, in the form of a licence or other commercialization agreement, usually in proportion to the company's contribution. Contract R&D, however, will not be eligible for support from the Fund.

### **Competition for World-Class Researchers Intensifying**

Top scientists and world-class researchers act as magnets for new investment. They attract the best graduate students, generate spin-off companies, and attract private-sector funding.

The link between star researchers and economic development has caught the attention of many state governments. North Carolina and Georgia are reported to be spending tens of millions of dollars each year to lure top scientists to their states. Georgia's Research Alliance has spent over \$160 million since the early 1990s to recruit 22 top scientists. They expect their investment to pay off in new high-tech industries and high-paying jobs.

Amgen Inc., an American biopharmaceutical firm, is investing \$10 million per year in Ontario because of the presence of a particular molecular biologist. The company initially sought to attract this individual to California but when he declined, it decided to bring its investment to him in Toronto.

However, Ontario has not been successful enough in attracting and keeping these high-calibre researchers. In recent years, for example, the University of Toronto lost one of its world-class biotechnology researchers to British Columbia, one of the world's most promising astrophysicists to Princeton, New Jersey, and a promising computer scientist, also to Princeton.

***Ontario's Investment***

Ontario will contribute \$500 million to the Fund over 10 years. Beginning in 1997-98, the Province will provide \$50 million to the Challenge Fund each year.

At least one-third of the funding for all R&D Challenge Fund projects must come from the private sector. To provide companies with an added incentive to participate, corporate contributions which qualify as R&D expenditures under the Income Tax Act (Canada) will be eligible for the new 20 per cent tax credit. This means, among other things, that the R&D is related to the corporation's business and can be exploited by the corporation in its business.

Universities typically set aside monies from within their annual budgets to promote competition for internal research resources. To participate in the Fund, universities will be expected to use these types of funds in support of their participation. This participation is expected to total at least \$1 billion over the life of the Fund.

The Challenge Fund will initially match funds from universities and other research institutions on a dollar for dollar basis. The funding participation expected from universities and other research institutions for each dollar contributed by the Province will increase over time.

Other participants may include federal and international granting councils and the recently announced Canada Foundation for Innovation. The R&D Challenge Fund will help to ensure that Ontario's universities are able to compete for funding from the Canada Foundation for Innovation on a timely basis.

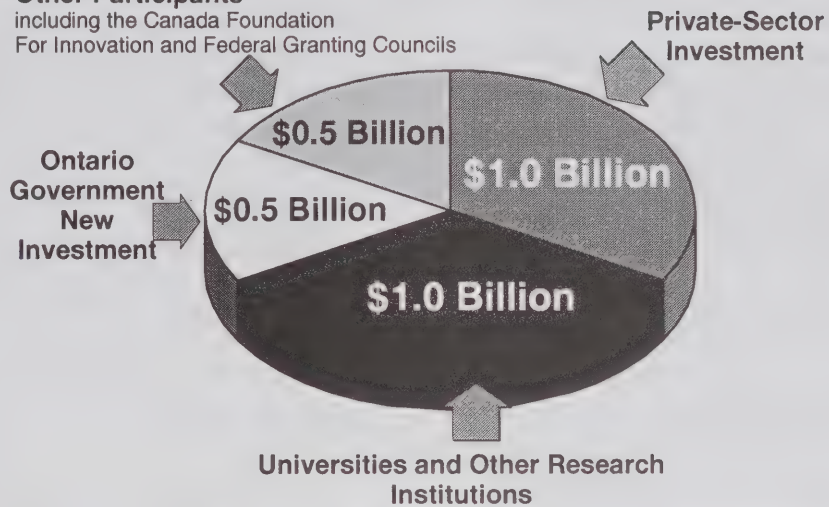
This new program will result in a total of \$3 billion of R&D in our universities and other research institutions over the next 10 years.

## R&D Challenge Fund

\$3 Billion over 10 Years

### Other Participants

including the Canada Foundation  
For Innovation and Federal Granting Councils



## R&D Challenge Fund: Design Highlights

### Funding

Ontario will contribute \$500 million over 10 years:

- ◆ \$50 million annually beginning in 1997-98
- ◆ at least one-third of funding for all projects must come from private-sector businesses
- ◆ qualifying corporate R&D contributions will be eligible for the Ontario Business-Research Institute Tax Credit.

### Eligible Expenditures

The Challenge Fund will have the flexibility to provide support needed to attract and keep world-class researchers, including:

- ◆ leading-edge research that benefits today's growing industries and helps create the industries of the future
- ◆ state-of-the-art equipment and facilities
- ◆ incentives for gifted researchers to work in Ontario, including endowed chairs.

### Eligible Applicants

Universities, research-oriented health care facilities and other research institutions.

These institutions will be expected to use internal resources to participate.

### Other Participants

The R&D Challenge Fund is expected to attract a wide range of participants, including:

- ◆ corporations
- ◆ Canada Foundation for Innovation
- ◆ federal granting councils and other government sources
- ◆ not-for-profit institutes and organizations
- ◆ individuals.

### Strategic Focus

All disciplines will be eligible for support from the Challenge Fund, but it will primarily target the following areas of research:

- ◆ natural sciences and engineering
- ◆ mathematics
- ◆ health sciences
- ◆ environmental sciences.

The Challenge Fund will support both longer-term discovery research and shorter-term research with more immediate industrial applications. Contract R&D will not be eligible.

### Administration

Funding decisions to be made by a Board composed of leaders from the business community, leading researchers, and government representatives.

Board members, including the Chair, to be appointed by the Provincial Government. A small secretariat will be established to support the Board.

## Conclusion

Our goal is an ambitious one — to keep Ontario at the forefront of innovation and R&D. Over the next 10 years, the actions announced in the 1997 Budget will support an estimated \$6 billion of investment in R&D and innovation in Ontario.

The Ontario economy is strong and these new policies will make it even stronger. They are designed to further develop the critical mass needed for knowledge- and technology-based economic growth and job creation. The new tax cuts will help ensure that Ontario continues to attract global R&D investment. This will contribute to the rejuvenation of the province's business climate and further increase its attractiveness for investors.

The Province is also introducing powerful new incentives for business-university partnerships — the R&D Challenge Fund and the Ontario Business-Research Institute Tax Credit. These partnerships are one of the building blocks for the knowledge- and technology-based clusters of industries and institutions that are already a key engine of job creation in the province.

To stay at the leading edge of innovation, companies and institutions must have highly talented and skilled people. The 1997 Budget measures will help students to pursue higher education, help to attract the best minds to teach them, and increase their employment opportunities.

At the same time, new ideas and discoveries must be successfully commercialized to realize their full economic benefit. For many small, innovative companies, access to financing remains a barrier. The Government has introduced a variety of measures to encourage banks and venture capitalists to invest in knowledge- and technology-based companies, including Community Small Business Investment Funds.

For its part, the Government is making a major new commitment to innovation and R&D. We invite the business community, universities and other levels of government to work together to meet the innovation challenge. The Government will consult on the implementation of the R&D Challenge Fund and the tax cuts with those affected, including businesses, universities and other research institutions. The consultation process will take place quickly so that Ontario companies and universities can compete for funding as soon as possible.

## Ontario Government Support For Innovation and R&D

Growing Innovative Companies		Financing Innovation	
<b>Current</b> <ul style="list-style-type: none"> <li>Ontario R&amp;D Super Allowance</li> <li>Ontario Innovation Tax Credit</li> <li>Telecommunications Access Partnerships</li> <li>Innovative Growth Firm Connection, including wisdom exchanges</li> </ul>	<b>New</b> <ul style="list-style-type: none"> <li>15% tax credit for computer animation</li> <li>100% write-off for acquiring intellectual property</li> <li>Elimination of the add-back rule on foreign technology</li> <li>Expansion of the retail sales tax exemption for qualifying manufacturing and R&amp;D equipment</li> <li>Capital tax exemption for R&amp;D and intellectual property</li> </ul>	<b>New</b> <ul style="list-style-type: none"> <li>Enhancement of the Small Business Investment Tax Credit For Banks</li> <li>Community Small Business Investment Funds</li> <li>Changes to LSIF rules</li> </ul>	<b>Current</b> <ul style="list-style-type: none"> <li>Small Business Investment Tax Credit for Banks</li> <li>Tax incentives to venture capital</li> </ul>
<b>Current</b> <ul style="list-style-type: none"> <li>Grants to universities and colleges</li> <li>Ontario Student Opportunity Trust Funds</li> <li>Ontario Student Assistance Program</li> <li>Co-operative Education Tax Credit</li> <li>Apprenticeship System</li> <li>Centres of Specialization in Colleges</li> </ul>	<b>New</b> <ul style="list-style-type: none"> <li>Graduate Transitions Tax Credit</li> <li>Co-operative Education Tax Credit for students in leading-edge technology programs</li> <li>Animation, Communications Design and Technology Centre at Sheridan College</li> </ul>	<b>New</b> <ul style="list-style-type: none"> <li>R&amp;D Challenge Fund</li> <li>Business-Research Institute Tax Credit</li> </ul>	<b>Current</b> <ul style="list-style-type: none"> <li>Centres of Excellence</li> <li>Provincial research grants and contracts to universities and other research institutions</li> <li>University Research Overheads Envelope</li> </ul>
Highly Skilled People		University/Industry Partnerships	



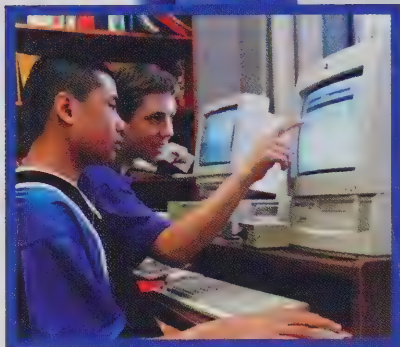
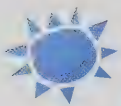






Investing in the

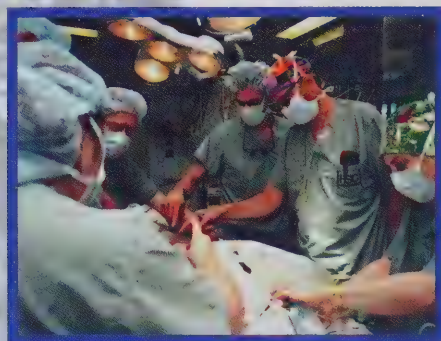
# Future



EDUCATION



HEALTH CARE



JOBS

SAFE COMMUNITIES



# ONTARIO







